

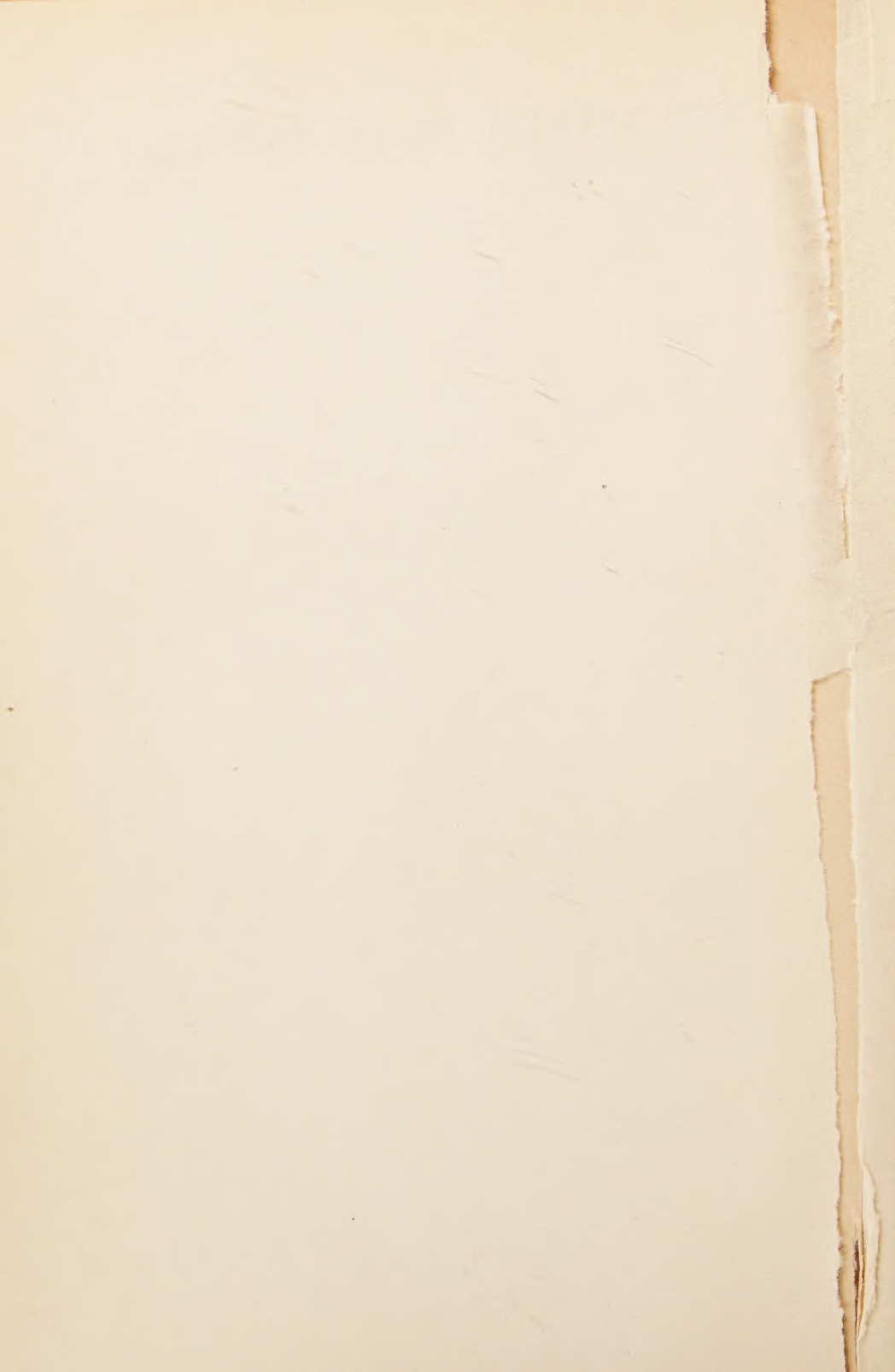
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# THE BREAKDOWN OF SOCIALISM



# THE BREAKDOWN OF SOCIALISM

By

ARTHUR SHADWELL, M.A., M.D., LL.D., &c.

*Author of*

*"Industrial Efficiency," "The Socialist Movement,"*

*"The Communist Movement," &c., &c.*

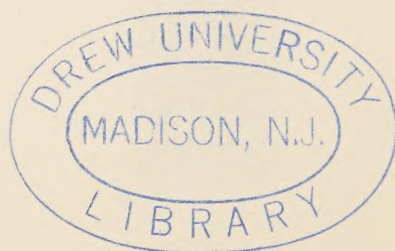


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## PREFACE

THIS book is based on a series of articles published under the same title in *The Times*. They were the result of a tour of inquiry made on the Continent to ascertain the progress of Socialism since the war, as explained in the Introduction. I did not know what I should find; that was why I went. What I did find was a situation for which the best short title I could think of was the word "Breakdown." And I have not been able to think of a better one since. But if I had found Socialism successful, I should certainly have said so. Why not? It would have been quite as interesting. In response to many requests for republication I have expanded those articles, and added much new matter, including two chapters on Russia, in order to make the treatment more complete than is possible within the limits of a newspaper.

I have to thank *The Times* for permission to republish that material in the present form; also the Foreign Office for facilitating my inquiry; Baron Palmstierna, the Swedish Minister, for permission to use Mr Sandler's lecture in the Appendix; Mr G. B. de Montgomery, for the version of the Swedish Social Democratic Party's programme; Count Ledebur, for permission to publish the letter in Chapter VI.; and other gentlemen, too numerous to mention, in the several countries visited, for their invaluable assistance on the spot. I also wish to express my obligations to the International Labour Office, whose publications are a mine of accurate information, of which I have made free use in the chapters on "Russia" and on "The Real Movements of To-day."

A. SHADWELL.





## INTRODUCTION

"BREAKDOWN" may seem a paradoxical term to use when Socialism, as a political movement, has been borne widely and rapidly upwards to place and power. Exception will probably be taken to it, and perhaps some explanation is desirable. As already indicated in the Preface, I use it deliberately, in a plain sense, not paradoxically. When anything breaks down it does not necessarily come to an end: it comes to a temporary stop, and may even run back a little. When some adjustments have been made it may go on again. That seems to me to fit the case fairly well. It certainly applies to the Bolshevist variety of Socialism.

It is undeniable that Socialism has been put to the test of reality in recent years as it never has been before, and that in some respects it has broken down. I think myself that it is breaking down in others, as will appear in due course. But before going any farther it is necessary, in view of the confusion surrounding the term "Socialism," to state the meaning here attached to it. I use it to signify two things, which are distinct but intimately connected—namely, (1) a political movement, organized nationally and internationally, for securing the control of public affairs in order to establish (2) a new economic order based on the common ownership and control of capital in place of the present order, which rests on the legal basis of private ownership, and is called Capitalism. Socialism certainly presents itself, and is commonly thought of, in these two forms, the first as means to the second, which is the end. It has other aspects; but they are matters of theory, susceptible of argument but not of objective examination, which is my present purpose. The question with which I am concerned is: How has Socialism in the two definite forms just indicated fared under the strain of war and its after-effects?

The first effect of the war was to break up the movement completely as an international organization. It is not necessary to prove this, because the fact was patent to all the world, and it has been constantly emphasized and deplored by Socialists in all countries. But it is an important side of the question, and

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cannot be altogether passed over, for two reasons. The first is that it furnishes a striking example of the illusions to which Socialists are peculiarly susceptible ; the second, that it has left lasting effects, from which the movement has not yet recovered. With regard to the illusion, the event showed that the confident hopes—and more than hopes, the plans—of the international organization evaporated at the touch of a stern reality. For nearly fifty years before 1914, ever since 1866, opposition to war other than class war had been a prominent feature of Socialist policy ; and from 1900 onwards it had assumed a more and more important place among the subjects of discussion at successive congresses of the Second International, where it was insisted on with a growing emphasis, which gradually hardened into a determination to prevent war and a belief in the power of the organization to prevent it, for which plans were outlined at a special congress in 1912.<sup>1</sup> The reason for this attitude is obvious. No doubt many members were inspired by a humanitarian motive, but they have no monopoly of that, and events in Russia have shown that Socialists can be incredibly devoid of it in carrying out their theories. There is a more practical reason in the fact that the united class war, which is the object of International Socialism, is absolutely paralysed by war between nations, which must therefore be opposed and prevented at all costs. But when the time came to put these intentions into practice, and break down the will to war, the dog it was that died, so to speak. It was Socialism that broke down, and that in no doubtful manner, but with a resounding crash. The contrast between expectations and events was indeed dramatic. Never have men, setting out to accomplish something, more completely miscalculated the forces with which they had to deal and their own puny strength. They were pygmies in the grasp of a Titan, or like gnats striving against a tempest. Most were swept away by it, and the few who were not escaped into holes and corners. Their impotence was absolute.

In recalling this experience I am uttering no reproach and passing no moral judgment : but I suggest that it is instructive.

<sup>1</sup> See *The Socialist Movement*, Part I., p. 151.

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The miscalculation of forces revealed by this attempt to reach the moon with a garden-ladder is not accidental, but typical of a particular cast of mind or disposition, which may have other merits, but is exceptionally prone to illusions, and therefore likely to be at fault—as it has been on innumerable occasions—when it comes up against the realities of life and human nature.

The Soviet leader, Stalin, who appears at the time of writing to have overtopped all his colleagues and to have fairly grasped the sceptre of Lenin in his fist, has some very caustic remarks on the Second International and this breakdown. They were uttered in a series of lectures on "The Foundations of Leninism," delivered at the Swerdlow University, and published in Vienna, with a Preface by Bela Kun, in 1924:

"With regard to the political phrases and resolutions of the parties forming the Second International, it is sufficient to recall the watchword 'War against War' in order to grasp the utter sham and humbug of the political practice of these parties, who know how to mask their counter-revolutionary acts with proud revolutionary slogans and resolutions. Who does not remember the proud demonstration of the Second International at the Basle Congress, where the imperialists were threatened with all the terrors of insurrection in case they should dare to begin war, and where the terrible motto 'War against War' was proclaimed? But who does not also remember that soon after, immediately on the outbreak of war, this resolution was pigeon-holed and the workers received the new word of command—to murder each other for the glory of the capitalist Fatherland?"<sup>1</sup>

The sarcasm is justified; but the objects of Stalin's scorn might retort that they have no monopoly of illusions and fine phrases, which turn out to mean nothing at all, or something quite different, when exposed to the rude touch of reality. The history of Socialism in all its forms is, through and through, one long tale of illusions. Each of its innumerable sects has perceived the illusions of the others but been happily blind to its own. None have cherished more than the Russian Communists; and though they have been forced to abandon some,

<sup>1</sup> *Lenin und der Leninismus*, p. 23.



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as we shall see in the next chapter, they still cling obstinately to others.

As a political movement, then, Socialism collapsed, both nationally and internationally, at the touch of war. This was the first breakdown. It is past, and a strong revival has since taken place ; but it is not the same. The event has left lasting effects in the division that we see to-day. Previously the international movement had been represented by a single organization for more than twenty years after the expulsion of the extreme Left Wing in 1893. It still contained discordant elements, holding opposed opinions ; but they managed to keep together and present an appearance of unity. That has gone. The war converted latent or suppressed antagonism into open conflict and split the movement into two opposing camps. This became evident with the attempts at revival initiated during the war, and the division deepened into an organized struggle when the war was over. The founding of the Third International in 1919 by the triumphant Bolsheviks in Russia was a declaration of war against those who were trying to revive the Second International. The latter eventually succeeded in doing so in 1923, and since then the rival organizations have confronted each other, each striving to win the support of the proletariat—as they say abroad, in Marxian phraseology—or the trade unions, as we say here.

As it stands, then, the movement is sharply divided into Right and Left, instead of being united. The one is labelled Socialism, the other Communism ; but, as so used, these terms do not refer to the aims, but only to the means. That is to say, they do not signify a difference of attitude towards the existing economic order and the new one that is to replace it ; the difference between them has to do with the means employed to abolish the old and set up the new. Both stand for the abolition of Capitalism, and so far support each other ; but they would set about it in different ways. Socialism aims at securing power by constitutional means and then gradually abolishing Capitalism ; Communism aims at seizing power by an act of revolutionary force and then completely and compulsorily transforming the economic order all at once. This distinction is now

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familiar and generally understood, but it is necessary to state it here because of its bearing on the main subject to be presently discussed, which is the feasibility of the proposed economic transformation, as shown by the actual course of events in recent years. Both methods of realizing Socialism in the sense of a new economic order have been employed—the Communist method by the Russian Revolution of November 1917, and by sundry abortive attempts to imitate it elsewhere; the Socialist method by the assumption or acceptance of responsibility, partial or complete, for the administration of affairs by Socialist parties in several countries.

Much less is known about the latter than about the Russian experiment. Bolshevism is always with us; but very little attention has been paid to the proceedings of constitutional Socialism, though its advance in political power denotes a much wider and deeper-seated change than the violent revolution that overwhelmed Russia nine years ago. This advance of constitutional Socialism has come about as an after-effect of the war in spite of the division into Right and Left, which has not only split the international movement in two, but has had the same effect in some measure within every country. In some the division has had little influence; in others it has greatly weakened the movement; and it is still active. The relative strength of Communism has waxed and waned in different countries in a curious manner, which seems to be determined largely by the amount of money provided for propaganda. It is a factor in the general situation not to be ignored, but outside Russia it has everywhere been defeated by the other alternative method of realizing Socialism which the war has brought into the sphere of actual politics.

The whole movement has, in fact, passed into a new stage; it has ceased to be a mere agitation or bid for power and has entered the field of political action. The definite division into Right and Left, formerly latent, but now developed by the war into organized parties, gives the world an opportunity of studying both methods in operation. The Communist method, applied in Russia and attempted elsewhere, is by its very nature the more complete, and we have a great deal of information

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about it ; but the other has also been brought to the test of practical experience, and that more widely, though necessarily in a more tentative form. There is not sufficient material for a conclusive judgment upon it ; that must wait for further developments, which I have no doubt will come, for the movement is still marching on. But already there is enough to give some insight into the practical problem of realizing Socialism as an economic order of society by constitutional means and some indication of the probable outcome of attempts to solve it. There is certainly enough to deserve more study than it has yet received in this country.

It is a question of evidence ; and in order to appreciate fully the bearing of the present situation it is necessary to put it in a historical setting and take account of the evidence previously available.

In my book on *The Socialist Movement*, published last year, I have pointed out that the history of Socialism, since the term was originally coined to signify an organized movement for the economic transformation of society, falls into three periods or phases :

- (1) From its origin after the close of the Napoleonic Wars to its collapse in 1848 ;
- (2) From its revival in Germany in 1863-1864 to the outbreak of war in 1914 ;
- (3) The present period, which began in 1917.

These three periods of activity, separated by two intervals of suspended animation, or at least quiescence, present quite different features. The first phase, confined to France and England, was marked by an immense profusion of ideas and by constructive aims, to be realized peacefully by voluntary action ; the second, by the dominance of a single idea, purely destructive in character—namely, the class war—to be pursued by agitation and consummated by the overthrow of the existing order on a world-wide scale ; the third, in which we now are, by the accession of Socialists to political power, complete or partial, with the corresponding opportunity of passing from agitation to action and putting theory to the test of practice.



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Obviously this situation is quite new, and it provides a good deal of fresh material for judging the possibilities of Socialism as an economic order of society.

Previously there had not been much to go by. There have been numerous experiments in the form of model communities founded on socialistic principles, and also in other forms ; but Socialists of the second period have always denied that such experiments, which were frequent in the first period, are Socialism at all, and that their failure proves anything against it. There is some ground for the objection. An isolated community is evidently a different thing from a general transformation of all communities, which is their aim ; but nevertheless something can be learned from a microcosm, and it would be wiser to study the reasons for the invariable failure of all these enterprises—the latest only thirty years ago—than to set them disdainfully aside. No one can doubt that if they had been successful they would be held up as evidence for Socialism, and with reason, for they all started as co-operative commonwealths on the principles laid down by Socialists, and still maintained. However, they belong to the past, and do not enter into the proper field of my inquiry. I refer to them only incidentally, as part of the experience previously at command.

A second fund of evidence is supplied by the various public enterprises and services already existing. These are more relevant, because they are part of the existing economic apparatus, and in a sense forerunners of the process by which Socialists hope and expect to realize their aim—namely, the transfer of economic means from private to public ownership and control. This has been the core and centre of the campaign ever since it started—public or social ownership and control instead of private or individual. It is the only definite and tangible mark that distinguishes Socialism from many other policies and movements directed to the same ultimate end, which is the progress of society or the advance of civilization or the elevation of mankind—or some such general ideal. Socialists propose to realize it by the particular means just stated. All the model settlements have been based on the same principle of common ownership and administration. They were

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attempts to apply it completely on a small scale, which it was thought would be voluntarily extended and eventually embrace the whole civilized world, by virtue of the demonstrated superiority of the social over the individual principle. When they failed and fell into discredit, the alternative plan of applying the principle to the whole community, both nationally and internationally, was taken up and has held the field ever since. It is called nationalization, or, more frequently on the Continent, socialization.

This is the practical side of Socialism, which without it would be only a vague aspiration, indistinguishable from others, or a form without content. It is often confused with Christianity, which has the same ultimate aim but insists on the essentially different means of the moral law addressed to individuals: and with State action in general, because the State represents the whole community. But this conception is obviously untenable, because the right to private ownership—the very thing it is intended to abolish, wholly or in part—is itself an institution established and maintained by the State, which alone has power to do so. Clearly the crucial question is not that of State action in general but of State action in respect of ownership. The policy of converting private into public ownership is commonly supported by numerous arguments, both ethical and economic; and these again are often confused with Socialism, but they lead to no result unless they are concentrated on the practical problem, which is nothing else but this one of ownership and control, not of everything, but of the necessary economic apparatus whereby life is carried on.

Now it is obvious that such parts of the apparatus as are already under public ownership and control come into the picture and call for examination. They are, so to speak, a jumping-off ground for Socialism, which would extend them, and they are frequently referred to as evidence in its favour. It is argued that they are highly successful because there is no demand for transferring them to private enterprise, and that therefore other things will be equally successful on the same basis. I shall have much to say on this head later on, and will only observe here that the argument drawn from an absence of

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demand for reverting to private enterprise is one that I have used myself.<sup>1</sup> I did not take it from anyone else, and though I do not claim to be its sole inventor I have seen it used by other people since I first put it forward. But the use I made of it is different. I pointed out the fact that many things are already publicly owned and that in this country there is no general demand for changing them over, not as a proof that they are so very successful (for they are the objects of constant complaints), but in answer to the exaggerated view that public enterprise is in itself necessarily impracticable and ruinous. That is obviously untenable, because these public undertakings exist with general acquiescence. But the argument has another side, which I also pointed out. If there is no general demand for the return of public undertakings to private hands, neither is there any for their extension, as there certainly would be if their superiority were as great as Socialists contend. This argument has been used by critics, who point out that if public enterprise were really so superior it must have knocked out private long ago by force of competition, whereas it is still confined to a very limited field, in which it possesses certain advantages for definite reasons. After all, the general body of consumers—which means everyone—do not care a straw, as consumers, for theories or principles; they want the best thing they can get at the lowest price, and will take it in preference to a less good thing, or one at a higher price, without regard to social or economic theory. Indeed, most people are quite indifferent about it, and do not know or care whether the means of locomotion, for instance, or the light, which they daily use, are supplied by a public authority or a private concern. They cannot tell you when you ask them, as I have repeatedly found by experience. They know what they want, and if State goods were superior they would demand them.

I shall go more fully into the question of existing public undertakings on the Continent in the proper place. They form an important part of the whole subject, as we shall see; but they are not at the centre of the new situation created by the accession of Socialists to power. The policy of Socialism is to

<sup>1</sup> *The Socialist Movement*, Part II., p. 191.



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effect a radical change of the economic system, and it therefore goes far beyond those forms of public ownership which have found their way into the existing order but have not made any substantial breach in it. They are not really instalments of Socialism at all, because they have not been introduced on principle, but for various reasons which have nothing to do with it, and are in some cases even antagonistic. Moreover they are all superimposed on an underlying structure of private enterprise. Some of these public undertakings have been handed down from royal possessions and enterprises of the past. The largest and most general of all, the postal service, is of that character; so, too, are various industrial concerns established by kings for economic or artistic purposes—such as mines, iron-works, glass and porcelain works (Sèvres and Meissen). Another very large branch, the State railways, have come about in two ways: they have either been built by the State because private capital was lacking—as in Sweden and Australia—or they have been taken over for military purposes—as in Central Europe. Then, again, sundry businesses have been acquired and monopolized for revenue purposes—such as the tobacco and matches trade in France, and most of the municipal undertakings.

All these cases throw some light on public ownership, but they are not the results of a deliberate policy and have not been introduced to carry out a distinct theory. Enterprises established on principle for the purpose of realizing Socialism are obviously on a different footing. Of them we have previously had no experience, because Socialists have had no opportunity of applying their policy and putting their theories to the test of practice. Now they have had the opportunity to a sufficient extent to furnish some material for forming a judgment. The opportunity has presented itself in different ways and in varying degrees of completeness; but in all cases it is something new, and it is the distinctive mark of the present phase in the history of the socialistic movement.

The question is: What has happened when and where Socialists have gained political power and wielded the authority of government? What have they done? What can they do?

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Public attention has naturally been directed chiefly to Russia, not only because it is a resounding experiment on a great scale, but also because the Soviet authorities, not content with their own revolution, have always and avowedly aimed at promoting similar revolution in all other countries, and have done their utmost to achieve that object by systematic propaganda and the creation of an international organization for the express purpose. No Government has ever before so occupied itself with the internal affairs of other countries or engaged in a comprehensive campaign for procuring revolution in them and inducing them to follow its example. The world has grown so accustomed to the spectacle that its strangeness has been forgotten and it has apparently come to be regarded with astonishing complaisance by other Governments, as just "pretty Fanny's way," although they are severe enough with common spies, who merely seek for information, and "pretty Fanny" herself would make short work of any such interference with her own internal affairs. But the circumstances do invest Russia with extraordinary interest, even for the most indifferent; and for many it is not only interest but acute partisanship, for or against.

The consequence is a special demand for information about Russia, which has been supplied in various ways, but most authoritatively through the extreme volubility of leading Russian politicians themselves. It is not necessary to go to critics or opponents. The most comprehensive and accurate information on the working of the Bolshevist experiment is that compiled entirely from official Soviet sources and published by the International Labour Office. Together with speeches by leading men reported in the Bolshevist publications and with the overt policy pursued by the Soviet Government, the studies of the International Labour Office furnish ample material for judging of the success or failure of Bolshevism as an economic system. They give us the plain facts in great detail; and in the chapters on Russia that follow I have made free use of them.

Another useful volume, more controversial in character but also compiled from official documents, is one published in Paris in February 1926 under the editorship of M. Fedoroff. It contains eighteen essays, on as many different subjects, by

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Russian professors, technicians and former officials. Visits of investigation would be of value if made by persons who knew the old Russia, understood the language, possessed sufficient technical knowledge and experience in social and economic investigation, were free to go where they pleased, had unrestricted access to persons and institutions, covered enough ground and devoted enough time to it. But I know of no such visits. Personally conducted tours are never of much value, even under the most favourable conditions : the members of the party see what is shown to them, which is the shop-window. I know, because I have taken part in such tours, and seen how misleading they are. In Russia to-day they are intended to be so ; they are propaganda, and no one of any experience in investigation will look to them for real information.<sup>1</sup> In any case they are unnecessary, for the reasons given.

The other European countries which come into consideration have attracted far less public attention ; but their experience is in one sense more instructive for us, although—or, rather, because—the course of events there has been less sensational. They have travelled on the same road as ourselves, but have proceeded farther along it. I do not refer to the spasmodic and short-lived attempts made in several countries to follow the Russian example—set up Soviet republics and carry out a complete economic revolution—but to the alternative course of introducing Socialism by gradual and constitutional procedure, which prevailed against the Bolshevik tendency. Since that is the alternative preferred here too, it might have been expected that there would be a lively desire for information about the experience of other countries which are, or were, in advance along the same path. What happened in Germany and Austria when the revolutions there brought the Socialist parties into the seat of government? What did they do to convert theory into practice? What has happened in Sweden and Denmark under the administration of Socialists? What in the newly formed Czecho-Slovakian nation?

Here in our own country, where also the Socialist party accepted the responsibility of government, we know that

<sup>1</sup> See the remark of Andreieff, the trade union leader, quoted on p. 72.



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nothing happened, and that no attempt was made even to begin the process of abolishing Capitalism; but Mr MacDonald's Ministry were in a peculiarly weak position, because they did not even represent the largest party in the House of Commons. They were put in office only by a freak and allowed to remain on sufferance for a few months; and though something more might at least have been attempted, the plea that they were in office but not in power is unanswerable.

But in the Continental countries the Socialists were in a much stronger position, and did make some attempt to realize their theories, or at least to tackle the problem seriously. The result of those efforts has seemed to me a matter of great interest, but I found it extremely difficult to obtain full and accurate information about them. I came to the conclusion that the only way to get it was to go and ask for it. I did so; and the result is embodied in this book. It is very far from being as complete as I should like it to be, but filling up the gaps—which are more visible to me than they can be to anyone else—would not alter the picture; and since no other attempt has been made anywhere to put the facts together I offer mine, in good faith, as a contribution to contemporary history for the information of the English-speaking world, which is very much in the dark about these Continental proceedings.

They furnish some answer from experience to the real question raised by Socialism, which is not whether the existing economic order is perfectly satisfactory and incapable of being improved or superseded by a better one, but whether the one advocated by Socialists would in fact be any better, or is even practicable at all. Hitherto they have simply assumed its superiority. But however bad the present order may be—and I suppose no one would deny its defects—the efficacy of this particular remedy cannot be taken for granted. A man may be very ill, but it does not follow that an untried medicine will make him any better; it may make him worse. Still less can it be assumed to be the only medicine, because some doctors, who have never tried it and know no more than anyone else, say so. There may be others better suited to the case.



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## CHAPTER I

### RUSSIA, 1917-1921

*The Communist Experiment.*—Russia is the one country in which the general after-war struggle between Socialism and Communism, in the sense explained in the Introduction, ended in favour of the latter. At first the Socialists had the upper hand. In the three successive Coalition Governments which followed the abdication of the Tsar and the first revolution in March 1917 they gained increasing sway, and the Soviets or Workers' and Soldiers' Councils, which had been formed, and rapidly increased in number from the outset of the revolution, were on their side. Kerensky, the Socialist leader, commanded more general confidence than anyone else and consequently became the head of the third Coalition in July. But no attempt was made on their part to introduce any sort of Socialism or to satisfy the popular expectations raised by the revolution. They were too much preoccupied with the war, which was still going on, and with combating the subversive agitation carried on by the Bolsheviks under the direction of Lenin, to deal with any social questions. This was their undoing. The soldiers wanted an end to the war; the peasantry, from whose ranks the soldiers came, wanted the land. That was what the revolution meant to them. But Kerensky could give them neither peace nor the land, and the Leninites worked on the growing dissatisfaction, both in the army and at home, until they had won over sufficient support to seize power by force.<sup>1</sup>

This was the second revolution, accomplished on the 7th of November. Thereafter the Bolshevik leaders, who constituted themselves the Government, never let go the reins of power, and passed such laws or issued such decrees as they pleased. Their decisions were submitted to Soviet congresses as a matter of form, but were always accepted. They were therefore in a position to carry out the great economic revolution to which the political revolution was only a prelude, introduce Socialism forthwith and transform the whole order of Society.

<sup>1</sup> For details see *The Socialist Movement*, Part II., chap. i.

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That was their aim and object, as Trotsky said in the speech he delivered, in the capacity of Commissary for Foreign Affairs, at the sitting of the Central Executive Committee on 14th February 1918:

“The revolution has raised in the most decisive manner the question of private ownership of the land and the means of production—that is, the life-and-death question of the exploiting classes. . . . Only an exact calculation of the national income, only a systematic organization of production—that is, one based on a universal plan—only a rational and economical distribution of all products can save the country. And that means Socialism. . . . Fight, close the ranks, create working discipline and socialist order, raise the productivity of labour and be dismayed by no obstacles—that is our watchword.”<sup>1</sup>

The history of what followed falls into two parts: (1) before the New Economic Policy; (2) after its adoption. The present chapter deals with the first part—from 1917 to 1921; the subsequent period is treated in the next chapter.

The Bolsheviks had had no detailed plan for carrying out their general aims, when they seized power five months earlier, but had proceeded from hand to mouth. Like all Marxian Socialists, they were too preoccupied with the destructive policy of abolishing Capitalism to pay much attention to the constructive problems of the new economic order. Only two items bearing upon it, and those in general terms, found a place in the programme put forth by Lenin on his arrival in Russia, whither he had been conveyed from Switzerland in an armoured train by the German authorities in April 1917. These were confiscation and nationalization of the land and amalgamation of all banks into a single State Bank. Both were familiar items in Socialist programmes, including those of British Socialism, though compensation is generally preferred to confiscation, and belief in the State Bank has waned on the Continent. Neither measure gives any indication of the form of economic organization to be set up, and it was not until later that a definite scheme was evolved. Lenin's April programme was rather a

<sup>1</sup> L. Trotsky, *Von der Oktober-Revolution bis zum Brester Friedensvertrag*, p. 118.

bid for popular support against the moderate Socialists, with a view to power, than an economic policy, and land nationalization was an essential part of the political campaign. It was one of the two things on which he relied for victory over the Mensheviks and Social Revolutionaries,<sup>1</sup> for the reasons already explained.

After the seizure of power on 7th November it became necessary to fulfil the popular expectations raised and deal at once with the questions of peace and the land, in order to consolidate the position, which was still precarious for the Bolsheviks. Trotsky says that at the open sitting of the Petrograd Soviet on the day following the *coup d'état*, Lenin and Zinovieff, who had been in hiding, made their appearance and were received with stormy ovations: "but the joy over the victory gained was clouded with anxiety as to how the country would take the revolution and whether the Soviets would really retain the government."<sup>2</sup> Their anxiety was well founded, for when the Constituent Assembly, which was an elected and constitutional body, met in the following January, the Bolsheviks were found to be in the minority. A resolution proposed on their behalf by Swerdloff was defeated by 273 votes to 140. Whereupon they declared the Assembly dissolved and never again allowed it to meet, which shows clearly enough the autocratic character of their rule, and justifies on democratic principles the subsequent attempts of the counter-revolutionaries to upset it.

The incident is all the more significant because they had already dealt with the two burning questions of the land and the peace. Lenin had, in fact, tackled both, with his usual decisiveness, on that very first day referred to by Trotsky. At the evening sitting he brought forward two decrees, which were unanimously adopted, for nationalizing the land and concluding peace with Germany. With the latter I am not concerned. The former, which declared the private ownership

<sup>1</sup> The Mensheviks were the Right Wing of the Social Democratic Party, of which the Bolsheviks were the Left Wing; the Social Revolutionaries were the non-Marxian Socialists. Both were included in Kerensky's Coalition Ministry.

<sup>2</sup> *Op. cit.*, p. 69.

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of land abolished for ever, was the first, and for Russia the most important, step in the great economic revolution. It was embodied in an Act in the following March and is still the law. In view of the leading place assigned to land nationalization in all Socialist programmes, as an essential and indispensable part of the whole policy, the Russian experience is of great interest, and I will deal with it first, after briefly outlining the general economic scheme, which was subsequently drawn up by Bukharin and distributed broadcast as an official pronouncement.<sup>1</sup>

Then we can go on to the other principal subjects involved. This seems the simplest way to explain a rather complicated matter :

*The General Economic Programme.*—The object in view is abolition of the economic domination of the bourgeoisie, which means the owners of capital, and every measure is part of a systematic, uniform plan for achieving this object. If any particular means fails, then it must be replaced by another, which is fitted into the scheme without destroying its character or diverting it from the unchanging purpose.

The economic domination of the bourgeoisie is based on the power of disposing of capital (including land), and the economic serfdom of the workman finds its visible expression in wage labour. The two are inseparable and both must be torn up by the roots.

There are two possible ways : (1) universal partition and (2) collective communist production.

The former, which particularly appeals to the peasant, is incompatible with Marxian principles and must be rejected. It signifies the minute division of private ownership, not its abolition.<sup>2</sup>

Consequently the alternative of Communism must be adopted.

The measures are the nationalization of land, banks and industry.

With regard to the land, the large landowners had already been expropriated by the decree of November 1917, and the question was how agriculture should be carried on. It was

<sup>1</sup> Bukharin, *Das Programm der Kommunisten*.

<sup>2</sup> *Op. cit.*, pp. 9-10.



decided that large-scale farming must be adopted, the former large private estates to be cultivated co-operatively and the administration of agriculture to be entrusted to labour communes, in which the poorer peasant or "village proletariat" would dominate the "village bourgeoisie" or richer peasants, and control and direct production.<sup>1</sup>

Industry was to be dealt with on similar principles, adapted to the different conditions—that is to say, the control of production was to pass into the hands of the workmen, organized in works committees, councils and trade unions. The technical staffs, which could not be dispensed with until workmen had learned to perform their functions, were to continue, but under the control of the latter, whom they were to serve as they had previously served the employers.

Industry as a whole was to be brought together in a single centralized organization built up in steps, beginning with works committees, and proceeding upwards through smaller and larger district councils, special central committees representing whole branches of industry, and culminating in a supreme council for the whole country.<sup>2</sup> Complete centralization of everything was a cardinal feature of Lenin's theory of Socialism.

The idea of a symmetrical industrial structure built up hierarchically of committee on committee has frequently appeared in recent years. How anybody who knows anything of committees and of the actual conduct of industry, or indeed of any practical operation, can suppose that it will work passes my comprehension. It is intended and expected to avoid the defects of bureaucracy, but can be nothing but bureaucracy *in excelsis*, because the great weakness of bureaucracy is the lack of personal responsibility in administration, and in this system it is completely eliminated. Added to this there were, in the Russian scheme, two other fatal elements. In the first place, the committees and councils were all to be composed of the proletariat—that is, the most ignorant section of the community—who were to control technically qualified and capable men; and in the second place, the whole system was to be assimilated to the peculiar constitution of the country for the

<sup>1</sup> *Op. cit.*, p. 36.

<sup>2</sup> *Op. cit.*, p. 42.

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purpose of strengthening it, which meant that economic administration, so far from being freed from political influence—the second great defect of bureaucracy—was deliberately placed under it.

The next point was the imposition of universal compulsory labour, with the corollary of finding work for all—a problem which was to be solved by the new and improved organization of production. (Unemployment is always assumed to be the deliberate creation of Capitalism; so it follows that there will be none when that is abolished.)

The distribution or control of labour was to be managed by the workmen's organizations, which were to fix a normal day's output and see that everyone reached the standard; but reliance was placed on the conscientious performance of work by all in the knowledge that they were working for the community, not for an employer.<sup>1</sup>

(The assumption that people will behave quite differently and shed their former bad habits under the new order is implicit in all Socialist schemes. It is the oil that is counted on to secure smooth working.)

Production was to be regulated in the manner indicated, and adapted to coincide with consumption. The two were to be adjusted by a system of registration, and private trade was to be abolished, foreign trade to be entirely in the hands of the State. The quantity of goods required for consumption was to be fixed by organizations representing consumers and constituted on the same lines as those for production. These bodies, which were to be formed by the extension and systematization of the existing co-operative societies, were to calculate the needs of the population and distribute the goods, which would be provided by the agricultural and industrial productive organizations in accordance with the specifications furnished them. The estimate of needs would thus begin with the smallest local unit and be gradually worked up through the grades to the full total, which would be passed on to the supreme organ of production, and then be distributed downwards through the productive grades to the units. Then the products so ordered

<sup>1</sup> *Op. cit.*, p. 46.

would proceed in the reverse direction from the circumference to the centre of the productive series, and down again from the centre to the circumference of the consumers' series. In no other way would it be possible to carry out the contemplated scheme of exact adjustment of production to consumption and complete centralization. A more cumbersome and impracticable apparatus could not be conceived; it is economic bureaucracy carried to the utmost limit. The only thing left to the individual was to consume the things dealt out.

The remuneration of labour was to be effected by means of a budget-book, which at the same time was to be an instrument for carrying out the universal compulsion to work and the distribution of goods for consumption. The daily work done by each person was to be entered in the book, and this alone gave a right to receive rations, so that no one could get anything without earning the requisite marks—a revival of Robert Owen's labour notes. Private trading being abolished, there was no market, and the intention was to do away with money by degrees. Meanwhile it was to be extracted from those who had, or accumulated, any by an ingenious system of periodically changing the currency. Possessors of a discarded currency could exchange it for a new one, but at a rising discount in proportion to the amount; beyond a certain sum it was to be confiscated. As money was done away with, its place would be taken by the "natural economy" of goods.

Such was the plan in brief which the Bolsheviks set out to realize. It was "full socialization" and they expected it to result in increased production. What happened?

*Agriculture.*—The peasants interpreted the decree of November 1917 as a permission to seize the large estates and drive out the owners; but beyond this they would not go.

A few hundred communes were set up, but they were a mere nothing, according to the official reports published in the *Isvestia*, compared with the millions of peasants who parcelled out the land among themselves and clung resolutely every man to his own bit, which he cultivated for his own benefit; and of the communes, some failed through bad management and others backslided into capitalist farms employing hired labour. The

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peasants, moreover, refused to produce for the community and surrender their produce without what they thought an adequate return. When force was applied, and armed commissaries were sent to seize the produce, they replied by restricting cultivation to their own needs. All attempts at coercion broke upon their stubborn resistance. They regarded the land as their own, and eventually the Government abandoned the struggle. So the outcome of socialization was not the abolition of private ownership (except in name) and production for common use, not profit: it was the multiplication of individual owners producing for their own benefit.

And there were other results, which still more completely falsified the expectations of increased production, and eventually contributed more than anything else to the complete breakdown of the whole system, after the most frightful suffering and wholesale mortality from famine. It had set in by 1918, when it affected "not only the two capitals but dozens of districts in agricultural Russia," as Lenin declared in a speech delivered to the Central Executive Committee of the Soviets and published by the Bolshevik Press.<sup>1</sup> He spoke of the "immediate pangs of hunger" that the people were suffering, and said that the "former surplus no longer existed," "the situation was critical; they were not only threatened with famine, it had already come."<sup>2</sup> And it had come to stay. From that time the scarcity was chronic, mitigated by good seasons and aggravated by bad ones, but never removed. The worst year was the very dry season of 1921, when millions perished of starvation, and millions more would have shared their fate but for foreign relief. But the extreme effects of that bad season were due to the demoralized state into which agriculture had been steadily falling since the Bolshevik revolution. There was famine months before the drought set in. What forced Lenin to abandon the previous system and introduce the new economic policy that year was the occurrence of bread riots in Petrograd and a mutiny of sailors at Cronstadt in January.

Much land had gone out of cultivation and the yield per acre of that which remained had fallen steadily through subdivision,

<sup>1</sup> *Der Kampf um das Brod*, pp. 9-10.

<sup>2</sup> *Op. cit.*, pp. 23, 36.



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lack of capital, of implements, of animals and fertilizers, and—above all—of incentive. Some statistics, extracted from the official returns of the Commissariat of Agriculture and the Central Statistical Department, and published by the International Labour Office,<sup>1</sup> will best show what had happened. The years compared are 1913, 1916, 1920 and 1921, and it is clear that though some fall had taken place during the war it was much greater afterwards.

Year	Total Area under Crops (in million dessiatines <sup>2</sup> )	Gross Yield of Cereals (in million poods)
1913	88.3	4624
1916	82.4	3482
1920	63.5	2082
1921	61.9	1689

Reduced to index numbers, with 1913 as 100, the fall in area cultivated was from 100 to 70.1, and in yield of cereals from 100 to 36.

The case of other crops was even worse than that of cereals. Stated in millions of poods: flax fell from 33.4 to 5.1; hemp from 25.6 to 10.0; tobacco from 6.3 to 0.3; sugar beet from 55.0 to 2.5.

The state of live stock is not given for 1913, but the fall from 1916 to 1921 was as follows, in millions:

Horses . . . .	31.3 to 23.6
Cattle . . . .	50.3 „ 38.1
Sheep and Goats . .	80.5 „ 45.5
Pigs . . . .	19.3 „ 13.5
Total	<u>183.9 to 120.7</u>

Nearly the whole of this fall took place after 1917—the revolution year.

<sup>1</sup> *The Co-Operative Movement in Soviet Russia*, pp. 90-92 (Geneva, 1925).

<sup>2</sup> A dessiatine is about equal to a hectare, or 2½ acres.

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In most of these categories there has been some improvement, to which further reference will be made, since the introduction of the new economic policy. I am at present dealing with the policy of full Socialization explained above and its results leading up to the breakdown of 1921. The official figures just quoted summarize them on the agricultural side, and the progressive decline shown stands in striking contrast to the after-war recovery in other countries. The comparison applies still more strongly to the field of industrial production.

*Industry.*—Town industry is the reverse side of the economic medal to agriculture; and in a sense it was more important to the Bolshevik policy, because the urban workmen are regarded as the true “proletariat” and the heart of the proletarian revolution—that is to say, the revolutionary leaders, who had constituted themselves the Government, relied on them for direct support, though they did not themselves belong to that class. The whole revolution, based on the teaching of Marx’s Communist Manifesto, was intended to consummate the class war between proletariat and bourgeoisie, by the triumph of the former and the setting-up of a “dictatorship of the proletariat.” Consequently they were paraded in the front of the stage, and at first some power was given them.

The bourgeoisie—otherwise the employers—were not at once turned out of their works, but a decree, issued in November 1917, established “Workers’ Control,” which meant that employers, managers and staffs were to run the works under the superior orders of the workmen. This was an attempt to realize an idea which became very familiar here during the war and found partial expression in the Shop Stewards Movement. But it must not be confused with Syndicalism proper, which aims at securing not only the control but also the ownership of works for the workmen collectively organized by industries. That was no part of Lenin’s policy; on the contrary, he always denounced Syndicalism, which is obviously incompatible with the principle of rigid centralization. Workmen’s control is syndicalistic; but in Russia it was to be exercised by workmen acting as organs of the State, not as independent bodies.

Naturally the plan failed. Friction arose, and the workmen,

being top-dog, turned out their former superiors or forced them to withdraw. Then, since they proved quite incapable of running the factories themselves, the State stepped in and took possession, without compensation, on the ground that the owners had failed to carry out the November decree. So the socialization or nationalization of industry began and gradually extended. Particular attention was paid to the large-scale industry, which stands to-day in the centre of Socialist thought and is, indeed, commonly identified with Capitalism, though the line of demarcation between large, medium and small is purely arbitrary and the economic principles involved are the same in all. Eventually everything came under regulation, though the little men were left in possession, as is generally contemplated now by Socialist parties.

Before going on to the practical effects of socialization, some account of particular features in the system seems called for.

*Trade Unions.*—Before the Bolshevik revolution the principal function of the trade unions had been to conclude collective agreements with employers, as elsewhere, and this continued for a time afterwards on an extended scale. The new power given to workmen encouraged them on the one hand to proceed towards organization by industries in the direction of real Syndicalism, but on the other hand they invoked the aid of the State to compel the submission of employers who resisted their rising demands. This was one of the circumstances that led to nationalization. As the latter process advanced, the functions and character of the trade unions changed. Collective agreements were gradually dropped and replaced by wage-scales fixed by decree, and the trade unions became organs of the State entrusted with various duties, which increased as the Communist policy developed. They were responsible for the management of State undertakings, the enforcement of compulsory labour, the determination of conditions of work and the distribution of rations, which took the place of wages.

Compulsory labour—the so-called militarization of labour—introduced to carry out the principle of “No work, no food,” involved joining a trade union. Membership was compulsory and

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everyone had to join. The membership ran up from 923,691 in 1917 to 8,428,362 in July 1921<sup>1</sup>; but, as Trotsky observes in *Terrorism and Communism*,<sup>2</sup> there was very little of Trade Unionism as ordinarily understood left in them. He defends the militarization of labour as the indispensable sequel of socialization :

“ The principle of compulsory labour,” he says, “ has just as radically and permanently replaced the principle of free living as the socialization of the means of production has replaced capitalist property.” He further observes : “ If organized economic life is unthinkable without compulsory labour service, the latter is not to be realized without the abolition of the fiction of the freedom of labour and without the substitution for it of the obligatory principle, which is supplemented by real compulsion.”<sup>3</sup>

The fiction of the freedom of labour was completely abolished. There was no freedom, as he admits. All had to be enrolled, men and women alike, go where they were told to go and do what they were ordered to do ; if they refused they received no rations. Nor had they any say in determining conditions, unless they were members of the Communist Party, who formed a limited and privileged class, into which entrance was jealously guarded. The trade unions, having become State organs, were under the control of tried and trusted members of the Communist Party, who formed a Central Council, which was in effect a Government Department and absorbed functions previously exercised by other departments.<sup>4</sup>

The results in industrial production were even worse than in the case of agriculture. The following figures, taken from the Central Statistical Department, are published by the International Labour Office<sup>5</sup> :

<sup>1</sup> *Industrial Life in Soviet Russia*, p. 242 (International Labour Office, Geneva, 1924.)

<sup>2</sup> *Terrorism and Communism*, p. 156.

<sup>3</sup> *Op. cit.*, pp. 126, 131.

<sup>4</sup> *Industrial Life in Soviet Russia*, p. 10 (International Labour Office, Geneva, 1924).

<sup>5</sup> *The Co-Operative Movement in Soviet Russia*, pp. 93-94 (Geneva, 1925).



# RUSSIA, 1917-1921

## INDUSTRIAL PRODUCTION

Year	Large- and Medium-Scale Industry		Small-Scale Industry	
	Million Gold Roubles	Index No.	Million Gold Roubles	Index No.
1912	3721	100·0	730	100·0
1920	518	13·9	193	26·4

The aggregate shows a fall in value from 4417 to 711 roubles, or in Index Numbers from 100 to 15·9. If exception be taken to the year 1912 it may be observed that factory production was greatly increased during the war—namely, to 127·5 per cent of the pre-war level. Turning to particular products, we have the following from the same source :

## INDUSTRIAL PRODUCTION

Industry	Million Poods (1913)	Million Poods (1920)	Index No. (1913=100)
Coal . . . .	1,738·0	467·0	26·0
Naphtha . . .	560·0	234·0	42·0
Iron Ore . . .	550·0	10·0	1·8
Pig Iron . . .	257·0	1·0	2·7
Siemens Martin Steel .	259·0	9·9	3·8
Rolled Steel . .	214·0	112·0	5·6
Cotton Yarn . . .	12·0	0·8	6·7
Cotton Cloth (arshins) .	2,700·0	55·0	2·0
Tobacco (units) . .	38,731·0	18,700·0	48·3
Sugar . . . .	87·5	5·5	6·3
Paper . . . .	11·9	2·1	17·6

The output per head of population in gold roubles was 31·79 in 1912 ; in 1920 it had fallen to 4·63.

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Some further summary statistics may be quoted to complete the tale of declining production.<sup>1</sup>

In 1913 the national income per head of population was 101·35 roubles; in 1921 it had fallen to 38·6 roubles.

The income from agriculture in 1921-1922 was only 52·9 per cent. of the 1913 level; that from industry only 22·9 per cent. The last figure was more than confirmed by Kameneff, who said that by the spring of 1921 the productivity had fallen to 20 per cent. of the pre-war level.<sup>2</sup>

The simultaneous decline of rural and urban production reacted on and intensified each other. The towns could not get food and the country could not get implements, fertilizers and other necessities; and this mutual deficiency was aggravated by the breakdown of transport.

It may be asked if the conditions of life for the workers had not in some respects improved in spite of the state of things. They had improved only for the favoured members of the Communist Party, who filled all official posts without regard to efficiency and formed the enormous and ever-growing bureaucracy. For all others the conditions of life had greatly and progressively deteriorated. They had lost all freedom through the militarization of labour, and wages had fallen enormously, while prices, so far as anything was purchasable at all by illicit trade, had risen still more. Down to 1917 wages were still paid mainly in cash, and in that year money-wages were 96·4 per cent. of the 1913 standard; to this a small amount of food-stuffs and "municipal services" were added, and the total then exceeded the 1913 level, as 101·8 to 100. In the following year, the first of Bolshevist administration, the money-wages fell to 21·5 per cent. and the total to 40·9. In 1920 money-wages had fallen to 2·2 per cent. and the total to 32·4 per cent., or less than one-third of the 1917 total.<sup>3</sup>

The consumption per head of the rural population in gold

<sup>1</sup> *The Co-Operative Movement in Soviet Russia*, p. 105.

<sup>2</sup> *Pravda*—Report of All-Russian Congress, December 1921.

<sup>3</sup> *Industrial Life in Soviet Russia*, p. 169 (International Labour Office, Geneva, 1924).

roubles had been 21·31 before the war; in 1920-1921 it had fallen to 3·41.<sup>1</sup>

These facts, to which many others might be added, fully explain Lenin's abandonment of the policy of full socialization and his adoption of the new economic policy in 1921. It was obviously impossible to carry on a system which had produced such results and was making them progressively worse. Attempts have been made to attribute the breakdown to the destruction caused by the civil war or to the famine of 1921. But the breakdown had occurred before the famine; and the economic decline which led to it began long before the civil war and continued after that was over. Moreover the civil war did not touch the town industries at all, and only injured certain rural areas, whereas the agricultural decline affected them all alike. But it is sufficient to take the testimony of Lenin, whose authority can hardly be disputed. One of the most characteristic qualities of that very remarkable man was a readiness to admit error, which is exceedingly rare in all walks of life, but particularly rare among politicians. One of his principles was constant examination and criticism of his own policy, frank recognition of mistakes and prompt change of tactics. Already in April 1918—long before the civil war—he criticized the Bolshevik industrial policy and told his followers that it was necessary to take a retrograde step and hire bourgeois industrial experts at high salaries, their own having been turned out by the proletarianization of the workshops. Moreover, there must be the strictest discipline in factories and unquestioning obedience to the manager, strict and conscientious accounting, regular work, payment by results and, in short, all the things they had thought were to be abolished.<sup>2</sup>

This speech was illuminating. It was a confession of disillusionment, which implies far more than appears on the surface. Theory brought to the test of practice had revealed some of the fallacies and misconceptions on which it rested, the fallacies bound up with the doctrine of the class war, the

<sup>1</sup> *The Co-Operative Movement in Russia*, p. 108 (International Labour Office, 1925).

<sup>2</sup> *Die Nächsten Aufgaben der Sowjet-Macht*, pp. 19, 35, 51, 52, 56.

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proletariat and the Labour theory of value—in short, the pillars of the Marxian structure. The theory is that labour or the proletariat produces everything, and is merely exploited by the bourgeois owners of capital and directors of industry, who carry on production for profit; hence the class war, which is ended by the suppression of the bourgeoisie and the victory of the proletariat, who will then be freed from the oppressive yoke of authority and the exactions of the capitalist, and will joyfully carry on industry far better than before, in the interests of the community, while themselves receiving the benefit of the surplus value which they have created but which has been grabbed by the capitalist.

In Russia these assumptions had by April 1918 been put to a six-months test. The class war had ended in the victory of the proletariat, who were placed in power and entrusted with the control of industry. The result was complete failure. So far from fulfilling expectations they proved incapable of conducting industry, and instead of working better and more conscientiously for the community, they were more slack and idle to please themselves. So it became necessary to place them once more under the authority of men who did understand how to conduct industry, subject them to “rigid iron discipline,” and introduce a personal incentive to work by paying them what they earned.

Lenin had made the discovery that management and accountancy are special functions requiring special knowledge, which neither the Socialists nor the proletariat possessed, and they must be paid for out of the surplus value produced. He did not know these things because Marx, from whom his ideas were derived, did not know them. He also discovered that men are naturally lazy and need both discipline and incentive to work at all. He had learned a good deal, and his faith in the proletariat was shaken. But he had not learned the full lesson of this first experience, which really knocked down all the underlying assumptions of theoretical Socialism, and particularly the assumption that the proletariat are superior to the bourgeoisie. He thought that what was lacking could be made good by the measures he indicated, that the difficulty was



transient and that the requisite knowledge would be acquired by the proletariat, who would then once more dispense with bourgeois control. Meanwhile the necessary discipline would be enforced by State compulsion. He was mistaken, as the sequel proved, and only prepared further disillusionment for himself, because he still clung to misconception and did not fully understand the problem. He had no chance of succeeding, as I perceived at once, on first reading the speech in 1918.

The crash came at the beginning of 1921, through the progressive worsening of conditions reflected in the statistics already quoted. And again Lenin recognized that their own mistakes were the real cause, and that their economic policy must be changed. He first brought the matter up publicly at the 10th Congress of the Communist Party, 15th March 1921. He had previously laid his views before the Central Committee, which had accepted them, as usual; but they evidently took the Congress aback and encountered some objection at first. He began by insisting on the political necessity of satisfying the peasantry; the stability of the Soviet Government depended on it:

"We know that only an understanding with the peasants can preserve the social revolution in Russia, so long as revolution has not broken out in other countries. . . . Our resources are limited, but we must satisfy the middle-class peasant."<sup>1</sup> He said that "a Communist who thought it possible to change the economic basis of agriculture in three years must have been a visionary,"<sup>2</sup> and that "the men who with the best intentions travelled from village to village to establish communities and collective enterprises knew nothing of agriculture." He argued that there were only two ways of improving the situation of the small farmer, which was essential to the revival of agriculture: "He must have some freedom in commercial transactions" and "be provided with the necessary goods."

"If by the introduction of free trading the State could obtain a certain quantity of wheat in exchange for manufactured

<sup>1</sup> Lenin, *Complete Works*, vol. xviii., Part I., p. 138, quoted by the International Labour Office (*The Co-Operative Movement*, p. 80).

<sup>2</sup> *The Co-Operative Movement in Russia*, p. 81.

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products, and if this quantity were sufficient to provide for urban and industrial needs, the economic system would be re-established. . . .”<sup>1</sup>

This was the problem known as the “scissors”—namely, how to bring together the two blades, agricultural and industrial products.

It was objected in the ensuing discussions that the re-establishment of commerce would inevitably involve the resurrection of the petty bourgeoisie and capitalism, and he admitted it:

“It is useless to blind oneself to it. . . . Commercial freedom does encourage the development of capitalism; there is no getting away from that, and those who maintain that the case is otherwise are merely wasting their breath.”<sup>2</sup>

He defended the proposal by putting the whole question on much broader grounds. He said that a change of economic policy was necessitated not only by the position of rural districts but by the general economic situation of the country; and he had his way, as always. But at the moment (March 1921) the only definite decision taken was to replace the forced levies of food-stuffs, raw materials and fodder by a tax in kind, which was to be higher than the levy. This first step entailed others, and the new economic policy was gradually developed that summer under the tragic stimulus of the famine, which proved the necessity of the change beyond all denial. It was on 17th October 1921 that Lenin made the famous speech which contained the fullest admission of error and failure. This speech, delivered at a Conference of Political Educators, was published in the *Isvestia* (the official paper of the Russian Government) on 19th October, and a translation appeared in *The Socialist Review*, the monthly organ of the Independent Labour Party, edited by Mr J. R. MacDonald, in January 1922. It is necessary to be exact in these details because it is the regular practice of certain Socialist papers in this country to deny the authenticity of all statements emanating from Russia that are likely to create an impression unfavourable to Bolshevism. I extract

<sup>1</sup> *The Co-Operative Movement in Russia*, p. 81.

<sup>2</sup> *Op. cit.*, p. 84.

from the Independent Labour Party translation the most salient passages bearing on the breakdown of full socialization in Russia.

He began by referring to the sharp change of policy that had taken place, involving more elements of the old order than their previous policy, and gave as the reason their recognition of the falseness of the assumption that it was possible to pass straight from the old regime to State control of production and distribution on a communist basis. He went on to recall some maxims laid down at the beginning of 1918, which they had, he said, unfortunately forgotten, and admitted that they had committed an error, "partly under the influence" of the Czecho-Slovak rising and the civil war.<sup>1</sup> The error was the attempt "to make an immediate transition to communist production and distribution."

"We thought that the peasants would hand over their grain under a requisition system; this corn would then be distributed to factories and workshops, and we should thus arrive at a communist system of production and distribution. I do not say that this plan was well conceived, but in any event we acted in this sense; that, unfortunately, is a fact. I say unfortunately, since experience—a very short experience, too—showed the error of this conception, which contradicted what we had said previously about the necessity of passing from Capitalism to Communism through a period of Socialist regulation and control, without which even the most elementary degree of Communism cannot be achieved. . . .

"During this period, as the result of this error, we underwent a severe economic defeat, after which we began a strategic retreat. . . . As to our defeat on the economic front, there can be no doubt; and it is a very heavy defeat; we therefore quite frankly face the question of the new economic policy. . . .

"The attempt to introduce Communism cost us, in the spring of 1921, a defeat on the economic front far more serious

<sup>1</sup> The narrative previously given and Lenin's speech on *Die Nächsten Aufgaben der Sowjet-Macht*, in April 1918, conclusively prove that the error was committed before these events could exercise any influence, because they had not yet occurred.

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than any we had previously sustained at the hand of Kolchak, Denikin or Pilsudski. At this period our economic policy, as conceived by the authorities, did not in the least correspond with what was going on among the masses and was not able even to restore production. Any such restoration was prevented by requisition in the villages, and in the towns by the immediate introduction of communist methods. It is this policy which provoked the profound crisis, economic and political, which broke out in the spring of 1921.

"Here, from the standpoint of our general policy, is a defeat, a serious defeat and a retreat. . . .

"The new economic policy, represented by the substitution of a tax in kind for requisitioning, marks the transition to the re-establishment of Capitalism to a certain degree. To what degree we do not know. Concessions to foreign capitalists (of which very few have been actually carried through in proportion to our offers), like the guarantees to private capitalists, are *nothing more or less than the direct re-establishment of Capitalism, and that is radically bound up with our new economic policy.* The suppression of requisitions means for the peasants free trading with the surplus produce left them, after taxation, which takes but a small portion of it. The peasants constitute the overwhelming majority of the population and of our whole national economy, and that is why it is impossible that Capitalism should not develop on the basis of this free trading. . . . From the strategic point of view, the essential question is to know who will get the best of this new situation. . . . It is indubitable and obvious that, in spite of the terrible scourge of the famine, an improvement in the general conditions of life has taken place, directly due to the change in our economic policy.<sup>1</sup> On the other hand, if Capitalism brings advantages, industrial production will develop, and with it the proletariat. The capitalists will profit from our policy, and will create that industrial proletariat

<sup>1</sup> That is, between March and October, the period of the great drought. This testimony is profoundly instructive. The old policy of Communism had brought the country to ruin with normal harvests; the reintroduction of partial Capitalism had in six months already effected an improvement—according to Lenin himself—in spite of the worst harvest on record.



which owing to the war and economic ruin has disappeared as a class among us. . . . The question then is, who will get in first? If the capitalists are the first to get organized, they will drive out the communists—there is no need to mince words about that. One must face the issue. Who will get in first? Will the proletarian power show itself capable, by the support of the peasants, of holding the capitalist gentlemen in leash so as to direct Capitalism with State reins and create a capitalism subject to the State and disposed to serve it? The real difficulty is in reviving personal interest. Every specialist must be so interested that the development of production concerns him. Have we done that? No, we have failed. We thought that production and distribution would go on according to communist rules in a country where the proletariat is declassed. We must change our method, otherwise we shall not get the proletariat to understand the transition. Our frontal attack has failed; we have been defeated; we must sit down and begin sapping and mining. The entire national economy must be based on personal interest. Discussion must go on in common, but responsibility must be personal. . . . We have not realized soon enough what can be left to discussions at meetings and what must be left to the Government—and most of our congresses have ended in nothing but words. Have meetings if you like, but direct without the smallest hesitation, direct more firmly than the capitalist ever did, otherwise you will never beat him. Direction must be more severe, more rigid than before. In the Red Army, after months of meetings, discipline was as severe as under the old regime. Penalties were adopted, including that of death, unknown even to the old Government.<sup>1</sup>

“If we work badly now, we shall all go to the devil. They will hang the lot of us, and will do well. They ought to hang us if we fail.”

Is any further evidence needed to show that the machine had completely broken down and that the breakdown was due to the miscalculations and wrong principles on which it was constructed? The defenders of Bolshevism have hardihood

<sup>1</sup> This disposes of a good many fictions, which have been industriously circulated, about the superior freedom and mildness of Bolshevik rule.

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enough for almost anything, but even the hardest of them will scarcely pretend to know better than Lenin.

Let us see exactly what had broken down. It was the economic system set up in Russia in place of Capitalism, and called Communism—that is, complete Socialism, established by revolutionary methods and force, as explained in the Introduction.

It did not produce the expected effects, but did produce quite different ones, which made it impossible to continue the system. Instead of economic prosperity it produced economic ruin; and it did so because it was based on fallacious formulas and real ignorance of economic forces. To attribute the breakdown to anything else is pure sophistry. The war left Russia in a better economic condition than any other belligerent country because of its natural resources, self-contained character and comparative independence of the world market. In all these respects it enjoyed great superiority over Great Britain, Germany and Austria. In the speech made in April 1918, and quoted above, Lenin laid stress on the favourable position of Russia on account of its natural resources. "The Russian Soviet Republic," he said, "finds itself so far in favourable circumstances in that it disposes—even after the peace of Brest—of immense resources in ore (the Urals); of fuel—in West Siberia coal; in the Caucasus and the South-East, of naphtha; in the centre, of peat—of gigantic wealth in timber, water-power, raw chemical materials, etc. The exploitation of these natural resources by the most modern technical methods will be the basis of an advance in productive power hitherto unknown."<sup>1</sup> Yet the national economy of Russia went ever downwards, while the other countries, that possessed no such resources, reorganized their industries, restored internal trade and gradually improved their economic position, in spite of all difficulties and set-backs.

Again, Russia had not suffered the destruction in the war that befell France, Belgium and Poland, but all these were making recovery while Russia was sinking.

Well, it may be said, and what of the civil war? In the first

<sup>1</sup> *Die Nächsten Aufgaben der Sowjet-Macht*, p. 33.

place, the civil war was an integral part of the Bolshevik policy and deliberately invoked. Lenin repeatedly said so: "Every great revolution, and particularly the socialist revolution—even if there had been no external war—is unthinkable without internal—that is, civil—war, which means even greater destruction than external war."<sup>1</sup>

"No socialist or anarchist—name whom you will—dares to say, in any assembly whatever, that one can arrive at Socialism without civil war, unless he has lost his senses."<sup>2</sup>

It was part of the programme, and fully contemplated by Lenin when he made the observations quoted above about the natural resources and the unprecedented developments they were going to accomplish. But it had not taken place; he discounted it beforehand. Trotsky, however, was equally confident after it had taken place, writing in 1920. He attributed the difficult economic situation to its effects, but continued:

"As soon as the dawn of peace made its appearance—after the destruction of Kolchak, Yudenitch and Denikin—we placed before ourselves the problem of economic organization in the fullest possible way. And already, in the course of three or four months of intensive work in this sphere, it has become clear beyond all possibility of doubt that, thanks to its most intimate connexion with the popular masses, the elasticity of its apparatus, and its own revolutionary initiative, the Soviet Government disposes of such resources and methods for reconstruction as no other Government ever had or has to-day."<sup>3</sup>

This was written in May 1920, and in the following March Lenin introduced the new economic policy in the manner described above and for the reasons given. What had become of Trotsky's confident forecast and the matchless resources of which he boasted? Read in the light of Lenin's subsequent avowals his claims sound like bitter irony—particularly the "intimate connexion with the popular masses" and the "elasticity of its apparatus." Lenin himself did not attribute the breakdown to the destructive effect of the civil war, but

<sup>1</sup> *Die Nächsten Aufgaben der Sowjet-Macht*, p. 44.

<sup>2</sup> *Der Kampf um das Brod*, p. 34.

<sup>3</sup> L. Trotsky, *The Defence of Terrorism*, p. 121.

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to their own mistaken policy, which had somehow or other been suggested by the civil war—a totally different thing and, without explanation, unintelligible. Why on earth should the civil war cause them to forget their former economic principles? Anyhow, whatever the relations between the two, the failure was attributed directly to the economic policy by its author, and the remedy proposed was a change of policy. That is incontestable. If the policy was not responsible for the failure, why change it?

The alleged destruction of industrial plant, etc., by the White Armies, which was put forward as an explanation, was an afterthought and devoid of foundation. The only industrial regions occupied by the military operations were the mining and metallurgical district of the south, and there the installations were in perfect order when the Communists took possession, according to the Bolshevist contemporary accounts. They were all working in 1921, and it was not until the "concentration of production" was begun by the Government at the end of the year that some were closed down.<sup>1</sup>

Of the Donetz coalfield, which is the principal mining area, an official of the Mining Department, Rabinovitch, reported specifically to the Gosplan (State Planning Council) that the valley of the Donetz was perfectly equipped and possessed adequate housing for the workmen.<sup>2</sup>

In Russia, as in all other belligerent countries, production had been greatly developed and augmented with the aid of the latest technical installation during the war; and all of it, with vast stocks, were at the disposal of the Government. The failure to utilize them—except for the equipment of the Red Army—was due entirely to the economic policy. In the Donetz coalfield there were 1200 pits before the war; they had increased to 1600 in 1917, through the addition of many small peasant undertakings. The important pits numbered about 900, and these remained at work, though the output fell enormously.

<sup>1</sup> *L'Economie Nationale de la Russie en 1921-1922*, published by the *Economicheskaya Zhizn*, and quoted in *La Russie sous le Régime Communiste*, p. 315.

<sup>2</sup> *Economicheskaya Zhizn*, No. 65, 1922.



The number still working in 1920 and 1921 was 959.<sup>1</sup> The confident anticipations of Trotsky in 1920, quoted above, completely dispose of the excuse that failure was due to lack of means. The situation and its real causes are well summarized in the Report of the International Labour Office in *The Co-Operative Movement in Russia, 1925*, p. 79:

"Economic ruin reached its climax at the beginning of 1921. The system of forced contributions, requisitioning and confiscation of agricultural produce had brought disorganization and disaster upon the peasants. The area of land sown had been much reduced, owing to the abolition of free trade, as a consequence of which the peasants refrained from producing anything in excess of their own requirements. Any surplus crops which might be harvested were carefully concealed by the cultivator, so as to avoid requisition by the supply corps. Cattle also were subject to requisition, and the peasants preferred to slaughter and eat them, reserving only such live stock as was absolutely necessary for carrying on their farms. Even when requisitioned goods were paid for on the spot, the currency depreciated so rapidly that the peasants were almost unable to purchase manufactured goods.

"As a result the towns were practically blockaded by the country districts, and this gave rise to a continued and acute shortage of food in urban districts. Workers quitted factories and workshops *en masse* and returned to their native villages.

"In addition, the growing shortage of labour in the towns, lack of raw materials, disrepair of machinery and tools, and the confused and bureaucratic management of the nationalized industries by means of numerous 'central committees' (there were sixty of these) had resulted in industrial chaos. Production had fallen considerably; it was no longer sufficient even to enable the peasants to maintain cultivation at a reasonable level. Finally the disorganization of all means of transport completely suspended relations between one part of the country and another."

<sup>1</sup> *L'Economie Nationale de la Russie*, p. 72.

## CHAPTER II

### RUSSIA, 1921-1925

*The New Economic Policy.*—From Lenin's speech in October 1921, quoted in Chapter I., it is clear that what he had in mind was the readmission of a certain amount of private trade and enterprise—otherwise Capitalism—into the economic system. But only as a subordinate element; the principles of Socialism were otherwise to be maintained, and all the main industries, with the whole of the foreign trade, were to remain in the hands of the State. This was called State Capitalism, apparently because the system contained some Capitalism under the control of the State; but the usual name for it is State Socialism or Collectivism—*i.e.* a system in which the ownership and control of industry, or most of it, is transferred to the State, while leaving the existing system otherwise in being. The verbal difference is explained by the fact that in Russia the position was regarded from the standpoint of the previous complete Socialism, whereas ordinarily it is regarded from the standpoint of the existing capitalist system. In the one case the novelty was the intrusion of Capitalism; in the other it is the intrusion of Socialism. In effect they amount to the same thing, and present the same economic problem, allowance being made for differences arising from the previous situation. It follows that Russia under the new economic policy furnishes an example of the working of such a system as other socialists wish to set up. What has been the result?

Although the first step was merely permission granted to the peasantry to sell their surplus produce, this entailed other changes which by degrees profoundly affected the whole economic structure reared by the Government. Lenin evidently foresaw this, and feared that it might so develop as to endanger the political system as well. The subsequent changes of policy, and the see-saw between allowing and suppressing private enterprise which has occurred from 1921 down to the present time, are an expression of the struggle between economic necessity and the survival of the Bolshevik system.

The free sale of their produce by the peasants involved the re-establishment of a market and a money economy. The Government had suppressed the open market, and though it had not succeeded in the aim of abolishing money it had to a great extent replaced its use as a medium of exchange by a system of exchange in kind, which differed, however, from the so-called primitive or "natural" economy in being centrally organized and bureaucratically conducted by Government departments and their dependent agencies. All these were affected by the new policy, which blew into a paralysed and decrepit organism the breath of life once more, and stirred it into activity. The opening of the market allowed the forces of supply and demand to operate again, and under their stimulus effort revived. In the period of Communism, when the aim was to adjust production and consumption by calculating and regulating both, there was no incentive to effort. All were under compulsion and naturally did no more than they were obliged to do. And in addition the calculations were all wrong. Internal trade depended on bringing the blades of the scissors together. The towns needed food and raw materials, the villages needed manufactured goods; neither were served, and effort consequently became more and more slack. But when the market was restored there was a chance for both, and traders appeared, as a link between them, to supply their needs.

This affected the co-operative societies, which had been the Government distributive agencies, and had in that capacity completely changed their character and functions, as had the trade unions, which were the State productive agencies. The transformation of the latter has already been mentioned: they had become compulsory bodies, to which all town workers had to belong, in order to carry out the militarization of labour. The co-operative societies, which had attained a considerable development, were reduced to a similar position. They had lost all voluntary character and become compulsory, and their functions were changed at the same time. "Instead of being created by the initiative of the people, they became consumers' communities set up by the State, which every member of the

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population was bound to join. . . . Members' shares were abolished and State funds took the place of share capital. The abolition of private trade meant the disappearance of rebates and dividends. In order that the co-operatives might carry out the part assigned to them by communist policy, the different forms of societies were brought together into a single administrative organization. As at the same time the State reserved to itself all credit operations and reduced the activities of private industry to the minimum, the credit co-operatives were in fact abolished, and producers' co-operatives disappeared almost entirely. The work of the consumers' co-operatives also underwent a radical change. Since freedom of exchange was abolished, the societies could no longer engage in commercial transactions. They confined themselves to provisioning the public and distributing articles of necessity in accordance with the instructions of the authorities. This excessive centralization and bureaucratization reacted in this movement as in all other fields; industrial and agricultural production fell to a very low level; the nation as a whole consumed more than it produced; the system of State provisioning which took the place of free exchange did not work well. . . . Under such conditions the Co-operative Movement was unable to carry out its duty of acting as a centre of supply and distribution. . . . It was incapable of supplying the population with articles of prime necessity or of counteracting the spreading depression which was imperilling the economic systems."<sup>1</sup>

This account, which summarizes a great mass of official data, is of great interest in view of the relation between Socialism and the Co-operative Movement. All Socialist plans take the co-operative societies into account, but different views are held about them. Some regard them as at least semi-socialist institutions; others do not. The latter was the Bolshevik view. The Russian Communists held that they had nothing in common with Socialism, but were forms of Capitalism, being based on private property and private enterprise, and devised only to protect the members against some abuses of Capitalism. But they intended,

<sup>1</sup> *The Co-Operative Movement in Soviet Russia*, pp. 335-336 (International Labour Office, 1925).



as other Socialists do, to make use of them and work them into their system. They did so in the manner and with the results described, very much against the will of the societies themselves, which protested but had to submit. It turned them into parts of the State machine and killed their living spirit. In fact, they perished as societies; the only institution that survived was the *Centresoyus* (Central Federation of Co-operatives).

Consequently they were unable to perform the part assigned to them under the new economic policy, which was to continue acting as State organs of exchange, but no longer with the monopoly they had possessed, because the reopening of the market and the resumption of private trade introduced the element of competition. This was a stimulus to activity, but bodies that have lost animation do not react well to a stimulus. What did react was private trade. It was at first intended to be merely local and on a small scale, while the bulk of commercial transactions remained in the hands of the State and its organs; but free trading, which responded to the needs of the people and the pressure of supply and demand, could not be so confined. It spread, and the expansion of the market entailed the restoration of money as the principal medium of exchange. At once the question of Capital and Credit became important, and the co-operatives could not command either. Members' shares had been abolished when membership became compulsory. They could not obtain credit on stocks of goods, because they had none. The State had ceased to finance them, and there were no banks until the market led to their reopening, which occurred only towards the end of 1921. The State Bank was reopened in November, and a Co-operative Bank in February 1922. So we see the apparatus of a live economy gradually restored through the re-establishment of the open market and its inevitable effects. But all the life was in private trade, which reacted on the co-operatives and the State enterprises and compelled them to activity.

During the year 1922 both betook themselves to the open market and engaged in ordinary trade. The co-operatives, who were continually demanding fresh credit, were compelled to extend their transactions in order to increase the turnover

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of their borrowed capital ; and this involved engaging in general trade and running after fresh customers without regard to their own members. They adopted the motto "Trade for its own sake," and traded in any kind of goods, so long as they could increase their capital. Nor were they alone in the scramble ; numerous State commercial bodies, which had come into existence, joined in it and competed.

At the end of 1921 a Central Commercial Service was set up under the Supreme Economic Council, in order to assist the State industries ; it was to act as a connecting link between them, buy in the open market materials and machinery, and deliver wholesale to the co-operatives and to private traders. It soon became a great new bureaucracy ; but there were in addition a large number of commercial bodies attached to various State departments, generally as joint stock companies, and in some cases including private capital. The open market invited commercial activity on the part of State enterprises and public institutions, which were all in a bankrupt state, and they hastened to seize the opportunity. "Soon there was no institution, commissariat or trust which had not set up its own commercial service and endeavoured to do business."<sup>1</sup> The Supreme Economic Council had nine such services, the Commissariat of Supply five, the Ministries of Health, Education and Agriculture had their own, and provincial governments also set up theirs. "All these services were in competition with each other, each demanded a monopoly for its own products on the home market, and each had its own commercial policy." All of them, and the co-operatives with whom they competed, betook themselves to private traders, who paid more in cash and less in credit, and were of the greatest assistance in marketing the products of nationalized industries through the superior elasticity and adaptability of their dealings and their relations with customers. They formed the best link between producers and consumers, as they have always done. They also contributed greatly, and for the same reason, to the revival of handicrafts, by supplying the country workers with materials and selling their products in the towns.

<sup>1</sup> *The Co-Operative Movement in Soviet Russia*, p. 155.

## RUSSIA, 1921-1925

The relative extent of private trade at the end of 1923 is shown statistically by a special census of commercial establishments taken by the Central Statistical Department. The following Table shows the number of undertakings, turnover and persons employed in State, co-operative and private concerns respectively in 1922-1923 :

COMMERCIAL UNDERTAKINGS, 1922-1923

<i>No. of Undertakings</i>	<i>Per Cent.</i>	<i>Turnover</i>	<i>Per Cent.</i>	<i>Persons Employed</i>	<i>Per Cent.</i>
State . . . 11,915	2.6	576,089	22.6	74,328	14.6
Co-operative . 27,678	6.1	294,298	11.6	71,749	14.2
Private. . . 420,366	91.3	1,667,565	65.8	358,352	71.2

By the end of 1923 private trade accounted for 64 per cent. of all commercial operations ; but its activity was naturally greatest in retail trade, of which it took 83 per cent. In wholesale trade, which was reserved as far as possible to State institutions, its share was 14 per cent., and in small wholesale business 50 per cent. In February 1924 the State textile trust was doing more than 56 per cent. of its sales through private traders.<sup>1</sup> Their superior efficiency was attested by Dzerzhinsky, head of the Supreme Economic Council, at the Conference of Industry and Transport, and by Rykoff, president of the Council of People's Commissaries (the actual Government), who quoted figures to show that private traders demanded only from 5 to 15 per cent. for their services as the medium between producer and consumer, while the State organs demanded from 50 to 100 per cent.<sup>2</sup>

The Soviet leaders were all of one mind about the success of private trade ; there were no two opinions on the subject. The Commissary for Home Trade, Lezhava, said that in some branches it had almost a monopoly. In Moscow and Petrograd nearly 90 per cent. of the trade in meat, cattle, etc., was in private hands. In April 1924 the same authority said :

<sup>1</sup> *Econ. Zhizn*, 12th January and 8th March 1924.

<sup>2</sup> *Ibid.*, Nos. 42, 56, 57, 120.

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“The most remarkable phenomenon of recent times is the expansion of private trade, which now dominates the home market, especially in articles of current consumption and textile products. It is also gaining a monopoly of the wholesale supply of commodities to private retailers, who transact practically the whole retail business of the Soviet Union.”

Other departmental chiefs expressed similar opinions. In January 1924, at the conference already mentioned, Sokolovsky, representing the Supreme Economic Council, pointed out the advance of private enterprise in wholesale trade in successful competition with the State and co-operative concerns :

“It is obvious that private capital has had a brilliant success during the last year. Twelve months ago 5 or 6 per cent. of wholesale trade was done by private firms ; the proportion is now 15 per cent. Retail trade is a source of wealth to the private capitalist. There has already been a good deal of friction among State, co-operative and private undertakings. Although the existence of State wholesale trade in our country is a necessary concomitant of State capitalism and nationalized industry—which represents a large commercial capital in the hands of the Government—private initiative is beginning to amass sufficient capital from retail trade to gain a footing in wholesale business.”

Smilga, another high official, also referred to the predominance of private enterprise in retail trade with the peasantry, and expressed the fear that it would monopolize trade with the country districts, “for the co-operative system has hitherto been completely inefficient, and this raises a barrier between ourselves and our principal consumer—the open market—the needs of which are constantly increasing.”

In short, the possibility that Lenin foresaw was in process of realization. Private enterprise was beating the State and the co-operative agencies in the commercial field and driving them out of business in spite of their privileged position. The opinion of the trade unions, which in 1922 had ceased to be compulsory bodies and gradually reverted to the normal function of protecting their members' interests, was concisely stated in their official paper, the *Trood*, of 19th April 1924 :

“When the co-operatives supply only a quarter of the



workers' needs, when they are inefficient in trade and fail to consider the needs of their customers, when they are unable to treat purchasers politely, to reduce their overhead charges and get rid of their useless expenditure, does anyone think that they will amend their ways for the sole reason that the workers are obliged to make all their purchases at the co-operative shop? . . . Where we have hitherto failed to capture the market, private trade is discharging a function of public utility."<sup>1</sup>

This was written in protest against the decision of the Central Committee of the Communist Party to inaugurate a campaign against private trade and drive it out of the market, for the benefit of the State commercial concerns and the Co-operative Movement. For while the Soviet leaders were paying verbal tribute to the economic efficiency and utility of private trade they were planning to strangle it, and had already begun to do so. The plain fact was that it had been too successful, and endangered the existence, not only of their artificial economic system, but also of the political system that was bound up with it. Opinion differed within the Communist Party, which had lost the guidance of Lenin, on the policy to be adopted. Some advocated the summary suppression of private trade and the compulsory monopolization of all retail business in the hands of the State organization and co-operatives. It was against this policy that the trade unions protested. Others, among whom was Kameneff, took a more moderate view, and deprecated violent disturbance of the market; they looked rather to the progressive effect of restrictive measures and to supplanting private trade by strengthening and developing the other agencies. The latter view prevailed at the 13th Congress of the Communist Party; and this decision may be regarded as amounting to abandonment of "Socialism in our Time," because it was recognized that "the transition from the new economic policy to the Socialist system would necessarily be long and difficult," and that its consummation would "take decades, if not more."<sup>2</sup>

<sup>1</sup> *The Co-Operative Movement in Soviet Russia*, p. 310.

<sup>2</sup> *Econ. Zhizn*, 1st June 1924.

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The campaign against private trade had, then, a negative and a positive side—on the negative side measures to check private trade and on the positive side reform of the co-operatives. The latter were to decentralize administration, reduce their overgrown staffs, study the requirements of their members, foster initiative and get rid of the bureaucratic spirit, attract working and peasant women, and carry on propaganda. The list of remedies indicates the diseases, which are the diseases of State undertakings in general. The Russian co-operatives had been completely demoralized in the period of Communism, and they were not sufficiently free under the new economic policy to recover their health. Instead, it grew worse.

“Not one of the problems facing consumers’ societies at the beginning of 1924, the solution of which was thought essential if the efficiency of the movement and of the State industries was to be increased, had been settled by the end of the year. On the contrary, the financial position of the co-operatives was worse, their commercial methods less satisfactory than before, ‘trade for its own sake’ was more than ever the rule. . . . It was generally agreed that the new commercial policy in force as from 1924 had complicated the difficulties of the Co-operative Movement.”<sup>1</sup>

The other arm in the 1924 campaign against private enterprise—namely, the State undertakings—was no more successful. The aim of the new commercial policy was to facilitate the sale of the products of State industries by bringing the factory and the consumer together. It was hoped to reduce overhead charges, lower prices and increase commercial activity, with a view to enlarging the working capital. “In actual fact, the new policy led to precisely opposite results.”<sup>2</sup>

In short, the positive or reconstructive side of the new commercial policy was a complete failure; it only introduced greater disorder and inefficiency than before. And this was heightened by the results of its negative or repressive side, which aimed at the direct reduction, if not elimination, of private trade. The Soviet Government has always been more

<sup>1</sup> *The Co-Operative Movement in Soviet Russia*, p. 324.

<sup>2</sup> *Ibid.*, p. 325.

successful in destructive than in constructive operations, and so it was in this case. The Commissariat of Internal Trade was charged with the task, and the Ogpu, the successor of the old Tcheka, assisted it with the old means of espionage, denunciation, arrest, penalties, confiscation and expulsions. The State trusts were prohibited from supplying goods to private traders at current prices; the latter were restricted to particular areas; hours of opening were regulated, to the disadvantage of private shops; credits to private traders were prohibited; rents, rates and taxes were raised against them.<sup>1</sup> The professed object was to prevent profiteering and speculation and to lower prices, but only so far as private enterprise was concerned. The State concerns and the co-operatives indulged no less in speculation and profiteering than before, and prices were not lowered. But the real object, which was to oust private trade, as freely declared at the 13th Congress, was to some extent attained. During 1924 some 250,000 shops were closed and, according to the official figures, private trade fell from 64 per cent. to 39.3 per cent. of the total. Confiscations to the amount of 400,000,000 gold roubles were effected. The Report of the International Labour Office questions the reality of the decline of private trade as shown by the official returns, which are based on the number of licences issued, as many traders ceased to take out licences but continued business in other forms. There seems, however, to be no doubt about the closing of 250,000 shops. The Commissariat of Finance expressed its regret at the loss of 250,000 taxpayers, replaced by "bankrupt co-operatives and State concerns that were bad payers."

The result of all this was to bring home once more to the authorities the value and need of private enterprise. Neither the co-operatives nor the State businesses could carry on at all without the private traders, and in spite of the repressive policy turned increasingly towards them in the latter part of 1924. The official co-operative journal stated in November: "In the too-sudden displacement of the centre of gravity to the co-operative organization a support essential for equilibrium has been forgotten, and naturally a substitute is sought in the

<sup>1</sup> *La Russie sous le régime Communiste*, p. 349.

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private trader, who knows better than anyone how to adapt himself to new conditions.”<sup>1</sup> State concerns themselves did business with private traders in preference to the co-operatives, because the latter were insolvent, could not be relied on, and paid mainly or wholly in credit, whereas “transactions with private traders were nearly always settled in cash or at most involved very little credit.”<sup>2</sup> The situation at the close of 1924, when the question was much discussed in the official economic papers, is summed up by the International Labour Office in these terms :

“The new commercial policy, therefore, meant an aggravation of the already very critical situation in the State trading and industrial organizations and the Co-operative Movement. In State industry, the crisis chiefly took the form of an acute shortage of capital which hampered the growth of production, put a stop to necessary repairs and improvements, and made it impossible to reduce general expenses, pay wages regularly, and dispose of the goods manufactured.”<sup>3</sup>

A change was inevitable and generally demanded ; it was freely recognized that a blunder had been made and that more use must be made of private capital. The problem came up for discussion early in 1925, and leading politicians and officials took part in conferences on it. In January the Central Committee of the Communist Party had the question before it and recognized that something must be done ; but the majority were in favour of a modified administration rather than a definite change of policy. That decision was determined more by political than economic considerations ; it was not shared by the economic authorities, who took a more practical view and wanted a real change. At subsequent departmental conferences their opinion prevailed. Dzerzhinsky, head of the Supreme Economic Council, said frankly : “We cannot do without the private trader in retail trade.”<sup>4</sup> Both he and Kameneff thought there was more danger in pursuing the hostile policy than in changing it. He said : “We shall create a force which will be

<sup>1</sup> A. Sulaieff in *Torgovo-Promyshlennaia Gazeta*, 21st November 1924.

<sup>2</sup> *Econ. Zhizn*, 26th November 1924.

<sup>3</sup> *The Co-Operative Movement in Soviet Russia*, p. 330.

<sup>4</sup> *Econ. Zhizn*, 3rd April 1925.



hostile to us if we impose on the population a famine of goods and if we sell our products at fabulously high prices." Kameneff, referring to the closure of 250,000 shops, said that, according to reports from the provinces, it had created a "commercial desert," and therefore it was necessary to attract private capital afresh. With regard to the political danger he said: "If I am asked which is the more dangerous to the Socialist cause, a commercial desert or private capital, I reply without hesitation that the commercial desert is much the more dangerous."<sup>1</sup> He knew the feeling of the peasantry, whose interests were sacrificed by the campaign against private trade, and whom the Government could not afford to antagonize. He said they were opposed to all measures which ran counter to the development of production. Naturally; so is everybody. Production is the primary need, and this naïve admission that the Socialist policy ran counter to it and required the assistance of private enterprise really gives away the whole case.

The changed attitude found more precise expression at a conference held on 30th March 1925, to which private traders were for the first time admitted. The official reporter, Smilga, said that the recent policy had caused a considerable set-back in private trade, which had had an unfavourable effect both on trading in general and on the State industries. They could not solve the problem of "welding" town and country together without attracting private capital in commercial occupations, and the policy must be changed. Private traders should be dealt with by the State industries on the same terms as the co-operatives; they should be granted credit by the banks, be relieved of administrative restrictions and have the heavy taxes lightened. Finally, the private trader should be given legal security for his trade, his property and his person.<sup>2</sup> The co-operatives opposed these suggestions and further conferences followed. Eventually a sort of compromise was effected. The Council for Labour and Defence decided to help the co-operatives with a special State subsidy and to grant private traders the rights recommended by Smilga.

The 14th Congress of the Communist Party, held in May

<sup>1</sup> *Econ. Zhizn*, 2nd April 1925.

<sup>2</sup> *Ibid.*, 1st April 1925.

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1925, approved in general terms the policy of developing relations with private traders and granting privileges to more well-to-do peasants, because "co-operative trade and State trade are not in a position to cope satisfactorily with the growth in business, so that a considerable place is open to the private trader." But it was expressly laid down that this must not be interpreted as a change of attitude towards the Co-operative Movement, which should still be the chief link between the State, the small producers and the consumers, but must be reformed and must overcome its own difficulties, which were "mainly due to their inability to adapt activities to resources, the instability of their forms of organization, the instability of their institutions, the high prices of their goods, etc."<sup>1</sup>

What this meant in effect was some relaxation of the anti-free-trading measures, accompanied by a renewed attempt to improve the efficiency of the co-operatives. It does not appear that any positive steps were ever taken to confer on private traders the rights recommended by Smilga, and certainly not the legal security, which is quite incompatible with the political system. The change was, in fact, negative. On the other hand, little could be expected from the improvement of the co-operatives, because the root-cause of the defects enumerated still remained. This was the demoralization caused by turning them into State bodies, deprived of independence, initiative and personal interest. The effects remained under the new economic policy, which did not really emancipate them or change their psychology as bodies under authority, accustomed to receive orders and look for help at every turn.

The upshot of the 1925 change of policy was a return to the earlier position and a relaxation of the campaign against private enterprise—because they could not do without it; but there was no relaxation of the intention to do without it. Economic necessity once more compelled a halt in the advance of part-socialization, as it had previously put a stop to full socialization; and the very fact that the doctrine was still adhered to proves that it was the machine itself, and not the will, that broke down. Meanwhile part-socialization had done better than full socializa-

<sup>1</sup> *Econ. Zhizn*, 2nd June 1925.

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tion—that is to say, there had been some improvement under the new economic policy, or State Capitalism. It can be summarily stated in statistical form, and the movement will be seen more clearly if the earlier figures already given are repeated. They are compiled from Soviet publications by the International Labour Office. We will begin with agricultural production; and with regard to this it must be remembered that in 1916 the country was denuded of labour and that 1921 and 1924 were very bad seasons. The figures represent the quantity of each crop as a percentage of the quantity in 1913, that year being taken as 100.

### AGRICULTURAL PRODUCTIONS—1913=100

<i>Year</i>	<i>Cereals</i>	<i>Flax</i>	<i>Hemp</i>	<i>Tobacco</i>	<i>Sugar Beet</i>
1916	71	63	51	42.0	80.0
1920	42	17	39	4.0	7.8
1921	36	15	39	4.0	4.5
1922	47	22	58	6.3	16.0
1923	60	32	75	58.0	24.0
1924	55	44	74	49.2	27.0

The great deterioration between 1916 and 1921 and a distinct recovery between 1921 and 1924 can be seen at a glance. Hemp and tobacco exceeded the war output in 1923-1924, but the more important crops were still far behind. With regard to live stock, no pre-war figure is available; in the following Table the year 1916 is taken as 100, instead of 1913:

### LIVE STOCK—1916=100

<i>Year</i>	<i>Horses</i>	<i>Cattle</i>	<i>Sheep and Goats</i>	<i>Swine</i>	<i>Total</i>
1917	94.5	94.2	96.8	106.2	95.8
1920	76.3	74.3	57.0	75.1	66.1
1921	75.4	75.1	56.5	69.9	66.1
1922	58.1	63.2	49.6	36.2	52.9
1923	63.9	76.5	70.4	47.1	67.5
1924	69.9	92.4	82.6	87.0	83.1

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The worst year is 1922 ; it shows the effects of 1921, when many animals perished for lack of fodder and others were slaughtered for food. In 1923-1924 there was a good recovery in cattle, sheep and pigs, but horses remained at a very low level, and this was a great hindrance to cultivation. In 1925 40 per cent. of the cultivating peasantry had no horses.

Turning to industrial production we get a similar movement.

INDUSTRIAL PRODUCTION—1912=100

<i>Year</i>	<i>Large- and Medium-Scale Industry</i>	<i>Small-Scale Industry</i>	<i>Total</i>
1920	13·9	26·4	15·9
1921	18·0	35·4	24·9
1922	28·4	56·8	39·5
1923	34·8	68·5	48·1
1924	40·5	94·5	49·8

Here the difference between the larger and the smaller industries is striking. The latter had risen in 1924 nearly to the war level, and whereas it had formerly represented only one-sixth of the total, in 1924 it was nearly one-third. The large industry is that run by the State, the small that in which private enterprise chiefly enters. In fact, the successful rivalry of the small industry, and particularly the peasant industry (*Kustari*), which revived through the stimulus of private trading, was one of the principal reasons for the campaign against private trading ; and the disastrous effects of that campaign in the country were one of the chief factors that compelled its modification, as already described. The State industries, it may be observed, were still, in 1924, far below half the pre-war level of production, though they had made a considerable recovery from the virtually extinct condition reached in 1920. The relative quantity of particular goods produced in successive years, expressed as percentages of 1913, is shown in the following Table :



# RUSSIA, 1921-1925

## INDUSTRIAL PRODUCTION—1913=100

<i>Product</i>	1920	1921-2	1922-3	1923-4
Coal . . .	26·0	35·0	37·0	49·7
Naphtha . .	42·0	50·7	56·0	64·6
Iron Ore . .	1·8	2·0	4·1	10·0
Pig Iron . .	2·7	3·8	7·0	15·7
Steel, Cast .	3·8	4·6	13·0	23·3
„ Rolled . .	5·6	7·0	13·0	19·0
Cotton Yarn .	6·7	25·0	41·0	55·0
„ Cloth . .	2·0	15·7	30·3	43·5
Tobacco . .	48·3	..	36·4	33·7
Sugar . . .	6·3	3·5	13·0	26·5
Salt . . . .	..	44·1	62·7	60·7
Paper . . .	17·6	16·6	34·0	57·0
Matches . .	..	24·3	3·7	48·6
Oils . . . .	..	15·3	40·7	49·2

Imports and exports, which sank to zero in the years of civil war, in 1919 show the following recovery:

## FOREIGN TRADE—1913=100

<i>Year</i>	<i>Imports</i>	<i>Exports</i>
1920 . . .	2·1	0·9
1921 . . .	16·9	1·3
1922 . . .	33·3	5·3
1922-1923 .	10·7	8·7
1923-1924 .	15·1	22·3

The imports in 1921 and 1922 included goods imported for relief; these amounted in value to about 10 per cent. of the total in 1921 and 40 per cent. in 1922.

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### OUTPUT PER HEAD OF POPULATION IN GOLD ROUBLES

1912	1920	1921	1922
31·79	4·63	5·23	6·52

### CONSUMPTION PER HEAD OF RURAL POPULATION

1912	1920-1921	1921-1922	1922-1923
21·31	3·41	4·94	7·72

The following Table shows the improvement in the rates of industrial earnings; it is taken from a report on "Wage Changes in Various Countries" published by the International Labour Office in 1926:

### AVERAGE MONTHLY EARNINGS IN REAL ROUBLES

<i>Industry</i>	1913	1922 (Oct.)	1923 (Dec.)	1924 (Dec.)
Metal . .	43·21	12·14	19·55	27·58
Textile . .	20·48	8·45	17·04	19·49
Chemical . .	24·54	12·12	17·66	24·09
Mining . .	41·77	18·21	16·62	20·45
Average . .	30·49	12·18	18·62	23·54
Railways . .	..	9·40	20·77	24·41
State Officials .	..	..	31·39	34·34

The average earnings, which were less than 40 per cent. of the pre-war level in 1922, had risen at the end of 1924 to 77 per cent. This is a large rise, though the net result is nothing to boast about in view of prices and cost of living. Retail prices in 1924 were 209 per cent. and in Moscow 236 per cent. of the 1913 level; cost of living was 212 per cent.<sup>1</sup> That is to say, while earnings were only three-fourths of the pre-war standard, the cost of living was more than twice as high. To put the relation in a concrete form: a man whose earnings enabled him to buy twelve loaves in 1913 could buy only 4½ in 1924. No other country has anything like such a bad post-war record.

<sup>1</sup> *International Labour Review*, vol. x., No. 4, p. 697.

To make the position worse, wages were generally in arrears. In June 1924 the total arrears of wages amounted to 12,000,000 gold roubles.<sup>1</sup> Dzerzhinsky reported to the Supreme Economic Council that in the year ending November 1924 not a single month passed without arrears of wages in the metal industry, and that on 17th November they amounted to 5,750,000 gold roubles, making, with non-payment of insurance dues, a total of 8,000,000 gold roubles of arrears. A similar state of things existed in the mining industry, and at the beginning of 1925 the State Sugar Trust owed over 5,500,000 gold roubles to its workers. The delay in payment lasted for from two to six weeks, and sometimes ran into months. To enable men to live at all, they received orders on the co-operative societies. The Donetz coal administration was paying 60 per cent. of wages in these orders, which are nothing but a revival of "truck." And even then the men often did not get the goods they needed, because the societies could not supply them.

No comprehensive statistics are available for the period since 1924, but it is possible, from various details, to gain some knowledge of later economic developments. During 1925 some general improvement took place, subsequent to the adoption of the milder policy towards private enterprise. The season was favourable for the harvest, which is the economic basis of life in Russia, and this reacted on the whole community, though the authorities overestimated the yield, which did not produce the anticipated surplus. The reason was, no doubt, the deplorably inefficient state into which cultivation had fallen, and from which it had not recovered, though some progress had been made since 1921.

It had been part of the original Bolshevik policy in agriculture to repress the more successful farmers, called *koulaki*, who were the most capable and industrious, and reduce them to the level of the smaller men, while raising the poorest section of villagers, with a view to abolishing hired labour and establishing equality. This policy was reflected in the size of the holdings, which are classified in four groups: (1) below 10 acres,

<sup>1</sup> *Trood*, 3rd June 1924.

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(2) 10 to 20 acres, (3) 20 to 45 acres, (4) over 45 acres. In 1920 the proportion of farms over 20 acres had been reduced from 9 to 1·7 per cent., and those of less than 10 acres had been increased from 58 to 86 per cent. The fall in production previously noted during this period was in part due to this levelling process, which penalized the more capable for the benefit of the less, who had not the means for efficient cultivation, even when they possessed the capacity. In 1925 the position had greatly changed. The smallest holdings had diminished from 86 to 31·3 per cent., the next group (10 to 20 acres) had increased from 6·5 to 49·5 per cent., and those over 20 from 3·5 to 19·2 per cent. Under the influence of the new economic policy—which, besides reintroducing private trade, replaced requisitioning by a tax in kind, and in 1923 changed this to a money-tax—the peasants had again sorted themselves out according to capacity, and a comparatively well-to-do class had emerged. At the other end of the scale hired labour had also reappeared. In the spring of 1925 the Central Statistical Office estimated the number of hired workers, called *batraki*, at 800,000, and this included only those who worked wholly for wages; there were in addition large numbers who could not make a living out of their holdings and eked it out by working for other men. The Agricultural Workers Union itself recruited members among hired labourers, and already had 100,000 of them enrolled in April 1925, according to the *Trood*.<sup>1</sup> The total number of farms was 22,700,000, and of workers, 45,900,000.

In short, the social and economic conditions of Capitalism have reappeared, and the authorities are under no illusions on the subject. They have had to take account both of the *koulaki* and the *batraki*, and in April 1925 issued a decree recognizing the latter and regulating their employment. At the other end of the scale they have begun to realize that the more capable farmers should be helped, not persecuted and penalized by excessive taxation. The following, from the *Isvestia* of 29th April 1925, is illuminating:

“The active peasant says, What am I to do? I have sown

<sup>1</sup> *Industrial and Labour Information*, vol. xiv., No. 13, p. 43.



one extra dessiatine, or I have bought two more oxen; I am now a *koulak*, an enemy. But why not let me go my own way? I will sow as much as I like (there is plenty of land for this), and I will certainly pay the taxes. But this year I have paid 240 poods in taxes, and I now have only 40 poods for myself. Things cannot go on like this. How can I work under these conditions?"

At the Conference of the Communist Party held in the spring of 1925 Rykoff said: "It must be recognized that capitalist conditions are rapidly being recreated in the country"<sup>1</sup>; and though every move in that direction is opposed on principle, and permitted with reluctance, it is found impossible to make any economic progress otherwise.

In industry also some very chequered improvement has taken place. At the meeting of the Central Council of Trade Unions in February 1926 Dzerzhinsky, president of the Supreme Economic Council, said that industrial output had on the whole increased during 1924-1925 by 64 per cent. in comparison with the previous year, but had not even then come up to the pre-war level. The Economic Council had drawn up a plan for a further 39 per cent. increase during the coming year, but, as State industry had already exhausted all its available capital, success depended on the grant of subsidies, the opening of new credits and the importation of plant from abroad. Unfortunately, owing to the comparative failure to realize the grain export plan of the winter of 1925-1926, imports and State credits had had to be curtailed, and it was hardly to be expected that industrial output would exceed that of the previous year by more than 25 per cent. Consequently it was impossible to increase wages during 1926. They had gone up during the previous six months more rapidly than output. Owing to the general adoption of piece-work, output had increased during October 1924 to May 1925 by 31 per cent., while wages had been stationary; but after July 1925 nominal wages had risen by 14 per cent.; yet individual output had fallen by 5 per cent. during the last three months. In view of this it was not only impossible to increase wages, but it was

<sup>1</sup> *Op. cit.*, p. 45.

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going to be extremely difficult to maintain them without increased output.<sup>1</sup>

The trade unions naturally put the blame on bad equipment and breakdowns, bad management, slack discipline, excessive fatigue, bad housing and low wages, which were still below the 1913 level. (Prices in January 1926 were 100 per cent. above the 1913 level.) No increase of individual output could be expected from greater physical effort, as this already had attained its maximum through the general adoption of piece-rates. They also drew attention to the persistent delay in the payment of wages.

The last condition is quite peculiar to Russia, and it is both general and persistent. It comes up at all trade union meetings. At the Congress of Building Trades in January-February 1926 it was complained that the delay was often as much as two months; and at the same time complaint was made of the practice, especially in State enterprises, of paying for ten hours' or twelve hours' work on the eight-hour rate, instead of the legal overtime rate of time and a half. The average wage in the industry was 72 per cent. of the pre-war rate, but there was a great difference between skilled and unskilled pay; the latter was extremely low. A memorandum by the Central Trade Union Council to the Central Executive Committee of the Communist Party in March 1926 drew attention to the dangerous discontent among industrial workers in nearly all the Central Provinces, North Caucasus and Siberia, on account of non-payment of wages. It was alleged that local authorities often received the money for wages but spent it on other purposes; and Dzerzhinsky was urgently appealed to for payment of the arrears due to sugar workers, which amounted to 3,000,000 roubles on 10th March 1926. Some of the State Sugar Trust factories had not even paid their workers for the first half of February.

Housing is another standing grievance, constantly brought up. At the recent Building Trades Congress, mentioned above, the Central Committee reported that the housing crisis had had disastrous effects. In the Ukraine only from 12 to 30 per

<sup>1</sup> *Industrial and Labour Information*, vol. xviii., No. 4, p. 106.

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cent. of the workers could find quarters, and even then were very badly housed. In Moscow itself, during the building season of 1925, a very large number of workers had to sleep out-of-doors. In other places they had to walk five or six miles to work.<sup>1</sup> The metal-workers appear to suffer particularly from this cause. At their congress in November 1925 all the delegates referred to it. Dzerzhinsky said the housing situation was frankly bad, not only because they lacked money but because building materials were not available in sufficient quantities, and also because all the building organizations were thoroughly inefficient. The official report stated that the average housing accommodation for a metal-worker was barely 40 per cent. of the legal minimum (about 10 square metres, or, say, 12 ft. by 8 ft.). In the barracks in many undertakings a worker was given only from a quarter to a half this room, or "less space than would be taken up by a coffin." "There are places where there is only one bed for three workers, and they sleep in it in turn."<sup>2</sup> In other places men pass the night under the furnaces and whole families live in the workshops on planks. The same question came up at the Railwaymen's Congress on 10th March 1926, when it was reported that housing did not provide shelter for a third of the railwaymen, of whom a large number lived in disused wagons, and others were quartered at a distance as far as sixty miles, involving several hours a day in the train.<sup>3</sup> The Commissary for Communications, who gave a deplorable account of the rolling stock, permanent way and repair shops, said that good work could hardly be expected so long as station staffs were housed in trucks and tents, workers' settlements consisted of dug-outs, and assistant stationmasters received lower pay than labourers.

The trade unions have many other acute grievances and are themselves the object of severe official criticism. Some account has been given in the previous chapter of their status and functions in the period before 1921, when they were Government organs, and membership was compulsory. After the introduction

<sup>1</sup> *Industrial and Labour Information*, vol. xviii., No. 4, p. 108.

<sup>2</sup> *Ibid.*, vol. xvii., No. 8, p. 266.

<sup>3</sup> *Ibid.*, vol. xviii., No. 6, p. 189; vol. xv., No. 6, p. 56.

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of the new economic policy their position was necessarily changed. Membership ceased to be compulsory, and the numbers, which in July 1921 reached 8,500,000, fell to less than 4,500,000 at the beginning of 1923, after which they began to rise again and by the close of 1925 approximated once more to 8,000,000. They are believed to represent over 90 per cent. of all the wage-earners in the country, and they include categories which lie outside trade unionism as ordinarily understood. They are organized by occupation or industry, not by craft, and on the basis of works councils. Their functions have changed by degrees under the new economic policy and they have tended to return more and more to the old order. They have practically ceased to exercise any influence on management, and are, indeed, forbidden to interfere; they are relegated to the duties of protecting the interests of members as wage-earners, concluding collective agreements and acting on conciliation bodies for the settlement of disputes, whether against the State as employer or private persons.

But the blight left by the Communist period and State control still rests upon them, as upon the co-operatives, and they have not been able to rid themselves of the political influence in official appointments, the bureaucratic spirit and dependence on the State. The result has been failure to arouse the interest of members, neglect of their immediate welfare, financial difficulties and the persistence of numerous internal abuses. Matters came to a crisis in the summer of 1925, when the Central Council issued a circular letter calling for thorough reformation. The existing defects were pointed out frankly and in detail by Andreieff, secretary of the Central Council and chairman of the Railwaymen's Union, in a speech delivered to them on 1st July 1925.<sup>1</sup>

He said that trade union officials had lost all contact with the working masses and had ceased to feel any responsibility towards them. They had confined themselves to carrying out the orders of the higher trade union or Communist organizations and acknowledged no responsibility except to them. He

<sup>1</sup> *Trood* (the trade union paper), 19th July 1925, summarized in *Industrial and Labour Information*, vol. xv., No. 10, p. 12.



referred to serious disputes and strikes that occurred in certain State enterprises in the spring, and put the blame on the bureaucratic spirit, the inertia and irresponsibility of the trade union officials and their lack of comprehension of the workers. Then he dealt with the following specific abuses—financial corruption (at all recent trade union meetings, it was stated that embezzlement, malversation, illegal advances, etc., had become alarmingly frequent, but were regarded by the committees with a benevolence amounting to complicity); apathy of workers in consequence of the authoritative and arbitrary manner in which the unions were conducted, so that not more than 50 per cent. of the members paid their contributions; suppression of free criticism, connivance of works councils in acts of the management detrimental to the workers in State industries, and their tendency to become organs of the management; abuse of “voluntary contributions” to various organizations which members are compelled to join.

The Central Council's circular letter endorsed all these charges and laid down the lines of reform, which included reduction of administrative costs, financial control and a more democratic system of election. It is clear from all this that trade union administration was still largely influenced by the idea that they were rather political—*i.e.* Communist—organizations, not industrial bodies; and in the autumn the Central Committee of the Communist Party admitted and deprecated the fact. They could not ignore the trade union circular letter, and were bound to take up the matter, which they did in a resolution passed in October. This resolution accepted the charges, and the trade union point of view, and observed :

“ Seeing that the trade unions are organized and directed by the Communist Party, it is to the faults in tactics of the Communist Party and its local organizations that one must attribute the demoralization which prevails among trade unionists and their indifference towards the unions. . . . The local organizations of the party continually commit mistakes of policy in their management of the trade unions. These mistakes may be summarized as follows :

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- (1) The Communist organizations pursue a policy of petty meddling with the normal work of the unions ;
- (2) The Communist organizations often choose too lightly the persons to manage the unions ; they displace and replace the officials too frequently, in defiance of established rules ;
- (3) Almost all questions relating to conditions of labour, wages and collective agreements are taken out of the hands of the trade unions and discussed in the Communist organizations.”<sup>1</sup>

The resolution laid down the proper tactics, which were penetration of the trade unions instead of domination, appealed to the Communists to follow the recommendation of the circular letter, and put the question on the agenda for the forthcoming congress of the party in December 1925.

I take leave, in passing, to draw particular attention to the extraordinary interest of this resolution. It shows in the clearest manner the relation between the workers—the proletariat—and the Communist Party ; it reveals their separation, the divergence of interests and the domination exercised by the party, which organizes and directs the trade unions. And these are the unions with which the British Trade Union Congress desires to continue in the “united front.” United front against whom or what ? In Russia the front is mainly against the State enterprises, which include all the larger industries, and the State services ; here it is against private concerns. How can there be such a united front ? In this connexion an observation of Andreieff is worth quoting. In bidding the trade unions carry out the instructions of the circular letter he said : “There is no intention this time of talking merely to impress foreigners.”

The reforms indicated above appear to have been very imperfectly carried out, particularly in regard to the principle of trade union democracy. At the general meeting of the All-Russian Central Council of Trade Unions in February 1926

<sup>1</sup> *Trood*, 17th October 1925 (*Industrial and Labour Information*, vol. xvi., No. 7, p. 14).

the secretary quoted cases of the old arbitrary practices, and a resolution was passed urging the necessity of finally abandoning the tactics of the Communist period (official presentation of official candidates and prohibition of criticism, etc.), and of practising trade union democracy by allowing workers to discuss the merits of all candidates, and by a cessation of the practice of changing the composition of trade union bodies duly elected by any such means as co-option, displacement, etc.<sup>1</sup> The secret ballot for elections is still prohibited. With regard to finance, it was decided that the strictest economy was necessary, and that, among other things, the possibility of reducing the number of officials should be considered. This, again, is one of the legacies of the Communist period. At one time there were eleven officials to every 1000 members, and though this number was subsequently reduced to six, or less, it still remained excessively high.

Unemployment is another serious problem, and growing worse. It increased during 1924, and in July that year the registered number was 1,400,000; in 1925 it fell somewhat, but rose again, and in May 1926 was over a million. There is a certain amount of unemployment pay, but only a small proportion of the unemployed are eligible, and it is extremely low. In spite of the unemployment, one of the great economic difficulties is the lack of skilled labour consequent upon the practical cessation of apprenticeship, through the working of the Soviet labour laws; this is one of the numerous problems the Commissariat of Labour is seeking to solve by a new code, now under preparation. The old one dates from 1922, but is so overlaid by a multitude of often contradictory decrees that the whole is in a state of chaotic disorder. The Soviet Government issues decrees not less autocratically—and much oftener—than the Tsar's Ministers. The Labour decrees issued down to the end of 1925 occupy 2000 pages of print, and have thrown the law into such confusion that not only is it incomprehensible to the workers, but "neither the officials of the Commissariat of Labour nor the trade unions

<sup>1</sup> *Industrial and Labour Information*, vol. xvii., No. 13, p. 433 (*Trood*, 10th February 1926).

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can keep pace with the continuous flood of decrees and instructions.”<sup>1</sup>

Many of the laws have proved quite impracticable. “If any attempt is made to apply the code strictly, the result will be in certain cases a *reductio ad absurdum*.” For instance, the provisions for the protection of the workers “have been shown by experience to be difficult to enforce and are scarcely observed at all in practice.” A typical case quoted is that of a factory in Leningrad, in which the workers are so huddled together that they are prevented from working, and the building is in such a state that it may collapse at any moment. “Undertakings would have to be completely transformed if the safety and hygiene measures prescribed by labour legislation are to be enforced. Since the State does not possess the necessary capital so to transform or improve undertakings, it follows that nothing can be done but to lay down the most general measures concerning hygiene and the most elementary technical precautions with a view to safety.”<sup>2</sup>

The Commissary of Labour has himself admitted that there can be no question of enforcing all the Acts, but he also complains of “an undoubted lack of good will on the part of State undertakings, and a certain weakness in factory inspection.” The State undertakings, which include all the large and most of the medium-scale industries, appear to be the greatest of offenders. “Are the laws governing the working of such undertakings being really enforced, even a thousandth part of them?” asks the Commissary. The factory inspectors, who are, he says, insufficiently educated, have hitherto devoted their attention only to private undertakings, with which they have dealt in an extremely rigorous manner; they have avoided visiting the State undertakings “in order to avoid unpleasantness.” As a result, “despite the acute unemployment crisis, the ten-hour day is still widespread, and particularly in the State metal industry. It is true that this is mainly due to economic causes—*e.g.* the necessity for increasing production while there are not enough workers, or when the lack of housing accommoda-

<sup>1</sup> *Voprosy Trood*, Nos. 7 and 8, 1925.

<sup>2</sup> *Op. cit.*, pp. 23-27.



tion is a barrier to the engagement of the necessary workers—but these conditions are mainly attributable to the absence of any proper control over conditions of labour.”<sup>1</sup>

But the laws themselves were also responsible and the need of amendment was recognized. Prominent questions to be so dealt with were the eight-hour day, the strict enforcement of which had been found impossible; protection of workers (dealt with above); annual holidays (with a view to reduction); regulation of the labour market (abandonment of engagement solely through the State offices, which had been found “absolutely impracticable” and had been replaced by free agreement); apprenticeship (to be modified on lines more favourable to employers); women and children (women to be admitted to heavy work and night work, and young persons to dangerous trades).<sup>2</sup>

This recent evidence, drawn from the official organ and the mouth of the Labour Minister himself, proves beyond the possibility of denial that in the proletarian State working conditions, so far from being superior, are materially inferior to those in capitalist countries; that the greatest offenders are the State undertakings, and that sheer economic necessity has forced a further lowering of the standard and the readmission of practices given up elsewhere. If it is asked how these facts are to be reconciled with the favourable impression made upon Labour delegations visiting Russia from other countries the answer is simple; nor is it necessary to impugn the good faith of the visitors, though some of their reports have been highly disingenuous. The Russian Communists are full of ideal plans and projects, which dazzle sympathetic hearers, and they have a few show institutions, which are taken to be typical, and may be typical of what they would like to do, but have no relation to the real condition of things. Deceptive impressions so gained are not peculiar to Russia, though Russia is a very special case: personally conducted parties are always liable to them. Visitors are shown something quite exceptional, and they say: “This is

<sup>1</sup> *Op. cit.*, p. 26.

<sup>2</sup> *Op. cit.*, p. 32; *Industrial and Labour Information*, vol. xvi., No. 11, pp. 3-7.

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what they do in Germany"—or America, or wherever it may be—generalizing from a single instance, even when there is no intention of misleading them for ulterior reasons, as there is in Russia, where the prime object of political propaganda is never lost sight of. The remark of Andreieff, quoted above, about "talking to impress foreigners" throws a good deal of light on the subject.

A particular instance of deceptive appearances is the practice of budgeting on paper for vast sums to be spent on social purposes, but which are not spent or forthcoming at all. Education is in a truly desperate condition, on the unimpeachable authority of Lunatcharsky, Commissary of Public Instruction, Madame Lenin and the Congress of Teachers. In 1914 there were 120,000 primary schools, giving instruction to 8,000,000 children. In 1924, according to Lunatcharsky, there were 40,000 schools and 3,000,000 scholars, and they were threatened with the necessity of closing 20 per cent., or one in five.<sup>1</sup> Many of the buildings were in ruins and the equipment equally defective—one book to four children, and that in a bad state; nor would they buy more, because of the excessive price. Only a small proportion of the children attend school, because they have no boots and the rooms are not warmed in winter. Teachers' salaries are below the pay of wage-earners and still more in arrears; they have to do the work of two or three colleagues dismissed for economy or on political grounds, take six or seven classes and work ten hours a day. They have, in addition, to perform other public services and carry on propaganda; they are tyrannically treated by the local authorities and subjected to arbitrary transference and dismissal; the quarters provided for them are in ruins, or so dilapidated as to be dangerous, and they are forced to beg shelter from the neighbours.<sup>2</sup>

These facts, and others which came out at the first Teachers' Congress, held in January 1925, bore out the report that had been made to the 13th Congress of the Communist Party by Madame Lenin, who said that local inquiries produced

<sup>1</sup> *Izvestia*, 10th October 1924.

<sup>2</sup> *Trood*, 18th January 1925; *Pravda*, 11th January 1925; *Voprosy Trood*, Nos. 7 and 8, 1924.

nothing but a "picture of nightmare and horror." According to the *Voprosy Trood*—the official organ of the Education Department—the state of affairs described was not confined to one provincial government, but wherever inquiry was held the same fact stood forth—that it was not humanly possible for provincial teachers to remain long at their posts.<sup>1</sup> Yet personally conducted visitors to Russia have selected the "educational system" for special praise, and held it up to the admiration of more benighted countries.

The disclosures just mentioned created a stir, and some effort has since been made to improve conditions. The *Labour Press Service* for 20th May 1926 called attention to the "remarkable progress in educational matters made in recent years by the Soviet authorities." It stated that the Educational Budget for 1925-1926 was 362,900,000 roubles, and the primary schools increased in number from 52,900 to 54,700, the secondary from 2416 to 2513. This is a little better than 1923-1924 and 1924-1925, but that is all that can be said. In 1914 the primary schools numbered 120,000, the secondary over 15,000—and they were in good condition. The budget then was 670,000,000, and the rouble was worth twice as much. The progress achieved by the Soviet Government in education is indeed remarkable.

Let us hope that some portion of the small improvement shown has gone to lighten the darkest spot of all in the whole life of this unhappy country—the truly dreadful nightmare of the abandoned and homeless children, to whom Madame Lenin and Madame Kalinin have drawn public attention. They are orphans, left by the civil war and the political executions, or refugees from the famine areas. In 1923, according to Madame Lenin, there were already 700,000 of these children registered, to say nothing of the unregistered, and the institutions provided for them could accommodate only 80,000. The number has since increased. In Moscow alone, according to Madame Kalinin, there were tens of thousands of them last year—"whole armies of proletarian children are condemned to perish physically and morally." They swarm in the streets

<sup>1</sup> *Industrial and Labour Information*, vol. xiii., No. 11, p. 31.

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and live by begging, theft and prostitution. *The Communist*, a Kharkoff journal, has described them :

"The poor little things, ragged, famished, shaking with fever, sleep under the braziers for boiling asphalt, in the public lavatories, on the dung-heaps. They are driven away, struck and beaten. Their cheeks are eaten with lupus and sores; they have scurvy and their gums bleed. Many are in such a state of prostration that they can no longer even beg."

The Russian correspondent of the *Frankfurter Zeitung* has given a pitiful account of them begging at the railway stations, and of "abominable scenes" that take place when the police seize little fellows of eight or nine years old who try to sell cigarettes or bootlaces in the street contrary to the law. The enormous increase of juvenile crime, which is freely admitted and cannot be denied, is mainly due to these hordes of abandoned children.<sup>1</sup>

It would be easy to extend the foregoing study of Russia under the new economic policy of State Capitalism to include other features, and to multiply details indefinitely; but enough has been said to show broadly what has happened. There has been some improvement and recovery from the impossible economic situation of 1921 and the complete breakdown of the system previously adopted. Part-socialization has not failed so utterly as full socialization. The reconstructed machine has run a little better, but its progress has been very slow, interrupted by jolts, jars and stoppages, which have necessitated incessant tinkering and changes of direction. It is a rickety affair which has no prospect of eventual success, but must break down again before long, as some of the leading lights already perceive.

A group has been formed among the more practical men who advocate a change of policy analogous to that introduced by Lenin in March 1921, and a further step backward towards Capitalism. They blame the State industries for the economic plight of the country, and no doubt they are right, though the weakness is by no means confined to them; it runs all through the whole system, except where some measure of personal freedom

<sup>1</sup> *La Russie sous le Régime Communiste*, pp. 177-182.



is allowed, as in the small industry, trading and agriculture, and where in consequence energy has a chance to develop.

But the State industries are probably the weakest link in the chain, and their importance in the economic system makes an effective general improvement impossible, let alone other defects. They have been "commercially" organized as trusts or syndicates, but are as bureaucratic as before and overloaded with officials, who are members of the Communist Party imbued with the notion that their chief objective is not economic efficiency but maintenance of the Communist dogmas. The Metal Trust seems to be one of the worst. At the last congress of the union, held in November 1925—attended by 503 delegates, of whom only 132 were workers in the industry and 25 of them casual labourers—Dzerzhinsky said that the industry had hitherto been nothing more than a purely bureaucratic organization working to fulfil orders given by the State, and had not adapted itself to the new conditions or satisfied the requirements of the population. The most successful of the trusts is the textile, which aims more at supplying the people and deals more with private traders.

These State trusts, which provide comfortable berths for trusted members of the Communist Party—however incompetent—have a monopoly, except for the small and home industries. The number of concessions to foreign capitalists is very small and the applications have fallen off. In the first two years of the new economic policy there were 1200 applications and 51 concessions; in 1924 only 250 applications and 9 concessions, while 10 previous ones were annulled or failed. The reason is the one-sided character of the bargain, by which the Government reserves the right to break a contract on the ground that it is contrary to the interest of the State, but does not effectually guarantee the property of the concessionaires against requisitions and confiscations, in spite of the apparent protection contained in the Code. A Soviet leader named Larin, who is very active in economic questions, stated the position with great frankness at the 14th Congress of the Communist Party, in April 1925: "Can we swear that in fifteen or twenty years we shall not expropriate the well-to-do

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peasants? No more than we can swear to the town capitalists. We authorize the industrialist to exploit his factory, but we know perfectly well, and so does he, that some day the Socialist regime will be established, and we shall confiscate that factory. When the time comes we shall expropriate private property, without any need of a second resolution; a simple decree will suffice."

It is obvious that no economic activity can flourish in this atmosphere. The above-mentioned group demanding a change of policy, of whom Sokolnikoff is the leader, were defeated; but the critical situation, with the rouble falling and prices rising, has compelled other efforts at reform. Financial corruption, which seems to be common in State enterprises, has been severely dealt with, and a fresh campaign inaugurated against profiteering, with a view to lowering prices. But these are merely tinkering measures. Stalin—who is something of a mystery, having suddenly come to the front out of a previous obscurity—sees the necessity for procuring fresh capital, and apparently places his hopes of reform and economy on a moral regeneration. He has recently delivered a diatribe, quite in the Lenin manner, against all kinds of malpractices. He denounced the "bureaucratic inventions" of the State Planning Institute (the *Gosplan* that has been so highly extolled), the "criminal squandering of public money by responsible workers," the "inflated staffs of Government and co-operative institutions, the disgraceful bacchanalia of flinging away millions of roubles of public money on jubilees and festivals, the enormous overhead charges on all business transactions." He said that Communists were worse in that respect than non-Communists, because they were "apt to treat the State as a kind of family property," and an "orgy of merry robbery was going on unchecked throughout the country." Such robbers could be counted by the thousand, and the worst of it was they were looked on as "smart fellows."

Of course: that is why they are Communists, and form the ruling class. Then the factory workers, who are the proletariat and form the second of the new classes, are just as bad in their way. The "irregular days off" were becoming a scourge;

hundreds and thousands of working days were lost in the factories owing to slackness and absenteeism. No real progress or increase of wages was possible unless a ruthless fight was put up for labour discipline and increased output. He appealed to them to increase the efforts in all spheres of public life, and to keep in close touch with the peasants, for any weakening of the alliance between workers and peasants might signify a collapse of socialist construction. He warned them against treating the peasants as "a kind of colony or object of exploitation by the industrial classes." Such a policy would undermine the union workers and peasants and the dictatorship of the proletariat.<sup>1</sup>

That is exactly how Lenin used to talk when he was embarking on the old policy, which came to such a disastrous end. The misconceptions and illusions are just the same, and fated to undergo the same disenchantment. It was quite hopeless then because people are not what he supposed them to be, and they are not altered by giving them fancy labels and calling some communists, and some proletariat, and others bourgeoisie, and investing them with imaginary qualities to correspond. It is equally hopeless now. Lenin yielded to the facts. He saw that if they were to survive at all they must go back and return in some measure to the old order; but he clung to his illusions and regarded their fulfilment as merely postponed. The struggle between reality and illusion has continued ever since, but there can be only one end to it. Slowly, reluctantly but irresistibly, his pupils have been driven back towards the old economic order by the inexorable pressure of reality. Every part of the system has tended to reproduce the old forms and return to the old functions—the money system, the market, the peasantry, the industries, the co-operatives and the trade unions. But they have all been paralysed by determined adherence to the old dogmas based on illusions, and by spasmodic attempts to enforce them. They cannot function properly under this strangling yoke. They are all insolvent, living from hand to mouth, perpetually demanding subsidies and credits of the State, which is also insolvent, but tries to satisfy them by

<sup>1</sup> See *The Times*, 27th April 1926.

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exacting tribute from the only people who are free to exercise economic functions, and are crushed themselves by these exactions. That *koulak*, or active peasant, quoted above was paying an income-tax of 17s. 2d. on his earned income. No wonder he said it could not go on.

There is no escape. The doctrinaire rulers who are trying to run the country have discovered what they never knew before, that production requires constant supplies of fresh capital, and having squandered all they had seized from its former owners they have for years been trying to get more. How? By increased production. But this is impossible without more capital. They are consequently in a cleft stick, trying to get capital by production, which itself needs the capital it is expected to yield before it can yield it. There is an apparent and temporary alternative in credit obtained from other countries, and for years they have been coming cap in hand to foreign Capitalism for help. What a spectacle! Can the irony of history show anything to equal it?

Here are these theorists, who set out confidently to abolish Capitalism and to conquer the world by the superiority of the system they put in its place, begging permission to be taken under the yoke of foreign Capitalism in order to save themselves from ruin—that very Capitalism they were to overcome by showing the world a more excellent way. And yet, while looking to it for help, they are still seeking to undermine and destroy it by promoting revolution in other countries and inducing them to follow their example. The only possible result would be to drag the others down to the same level, involve all in a common ruin and make the help they clamour for impossible.

Was there ever such lunacy? Why have they given themselves up to it? For no reason whatever except that the words of the prophet Marx may be fulfilled. The Communist Manifesto says so, and therefore it must be.

The Marxian theory has proved equally false in another respect. I have confined myself to the economic aspect of Bolshevism and said nothing about its political features—the suppression of free speech, the horrors of Terrorism and the



seas of blood through which it waded to ruin. But there is another result bound up with the Marxian economic theory which should be mentioned.

The proletarian revolution of Marx was to abolish classes. In Russia it has abolished the old ones only to set up others in their place. There is the Politbureau, a Venetian Council of Ten, which wields all power; there is the Communist Party, which executes its decrees, occupies all posts, enjoys all privileges and corresponds with the feudal nobility, even to possessing the *droits de seigneur*; there is the proletariat, which now gets more kicks than halfpence; and there is the bourgeoisie, which has no rights at all, political, legal or economic. Such is the abolition of classes.

Since the foregoing was written some later information is to hand. The economic pressure has continued and intensified dissensions. In July 1926 Dzerzhinsky died suddenly, after a speech at the plenary session of the Executive Committee of the Communist Party, in which he denounced in unqualified terms the whole economic system as an unheard-of bureaucracy, predicted collapse and declared that the responsibility was greater than he could bear.

At the meeting of the Central Council of Trade Unions in July the Deputy Commissary of Labour said that though the economic situation had improved the output of nationalized industry was still only 60 per cent. of the pre-war level. Unemployment (total said to be about 2,000,000) was expected to be stationary for several years. In Russia proper 16 per cent. of the workers really work 9 hours a day, in the Ukraine 30 per cent. work 9-9½ hours; in the metal industry 70 per cent. regularly work 40 hours overtime per month of 23 days; in the Donetz coal mines they work 7, 8 and 9 hours a day; in some factories and mines no weekly rest is observed.

A Commission of Inquiry into Homeless Children reported shocking conditions inside the homes and outside. Though 350,000 have been swept into camps and homes, 300,000 remain homeless.

## CHAPTER III

### GERMANY

OF the Continental countries outside Russia which have been brought—with or without a political revolution—face to face with the practical problem of realizing Socialism, and have chosen the alternative method of doing so by constitutional means, by far the most important is Germany, on account of its size and population, its advanced economic development, and the fact that for more than sixty years it had led the Socialist Movement theoretically and politically.<sup>1</sup> So far back as 1912 the Social Democratic Party had become the largest party in the Reichstag. No country was economically so “ripe” for Socialism, none was theoretically more ready for it, and in none were conditions after the war so favourable for the attempt. If it succeeded there, other countries might well follow the lead; if it failed, where else was it more likely to succeed?

By the revolution of November 1918 Germany was converted from an Imperial league of monarchies and principalities, with a few free cities, into a federation of republican states. It retained the title of *Reich*, which used to signify the Empire, but may perhaps now be translated “Realm.” This great constitutional change took place before the Armistice, on 9th November, when the Kaiser abdicated, though it was not consummated until the formal renunciation of the throne by the Kaiser and the Crown Prince on 28th November. It had, in fact, begun in October, and on 10th November a Provisional Republican Government was installed, in the form of a Council of People’s Commissaries, consisting entirely of Socialists. The once-united Social Democratic Party had previously undergone the same disintegrating process as their colleagues in other countries under the stress of war, and had split into (1) Majority Socialists and (2) Independent Socialists, representing the Right and Left wings respectively; but the revolution brought them together to form the Provisional Government, which consisted of six members—of whom three belonged to the Right and

<sup>1</sup> See *The Socialist Movement*, Part I., chap. iii.

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three to the Left, with Friedrich Ebert, a Majority Socialist, as President.

They were placed in that position by a sort of spontaneous popular mandate, with general consent and without any opposition. The whole revolution was, in fact, the outcome of a spontaneous popular movement, which had been gathering way under the surface ever since the beginning of the year, when a general strike occurred. The first overt sign was a series of mutinies in the fleet in October, followed or accompanied by sundry insurgent demonstrations at Kiel, where workmen and soldiers ashore made common cause with the bluejackets. The explanation given of the behaviour of the sailors is that they had been long lying idle in harbour, with nothing to do and nothing to occupy their minds but talk about the war, and that when they went ashore they were the objects of an active peace propaganda carried on in the pot-houses by Socialists of the Left, who were then fired with enthusiasm by the Bolshevik Revolution in Russia. But it seems certain that the spark which set the mine off was the rumour—whether true or false—that the High Command had resolved to send the fleet out for one last desperate battle. The men did not see why they should lose their lives for nothing, and in several instances refused duty. Attempts to restore discipline only fanned the flame and made it spread.

It is perfectly clear, however, that if the revolt had not begun in this way it would have found some other expression about the same time. It was a mass movement running throughout a sick and weary land, tried beyond its strength; and in a very short time it broke into open activity in all directions. The proceedings at Kiel, which assumed a more and more definitely insurrectionary character, spread rapidly to the other coastal towns, and particularly to Hamburg. Munich followed suit in the first week in November, and proclaimed a revolution before the abdication of the Kaiser. One after another the other states and provinces joined in. There was no plan and no particular leader, though certain individuals were prominent in different localities, as, for instance, Kurt Eisner in Munich, where he became president of the Bavarian

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Republic. What usually happened was that meetings were held and Soldiers and Workers Councils were formed, obviously in imitation of the Russian model; but no one could say exactly how that came about and there was no uniformity. The astonishing thing was the general absence of disorder. This was due to the lack of opposition; the uprising was too massive to be opposed, and nothing shows more clearly its spontaneous character than that fact.

It was natural that prominent Socialists should emerge out of all this and be chosen to form a Provisional Government, which was done at a general meeting in Berlin on 10th November. They had always preached revolution and urged the masses—the proletariat—to assert themselves. Now it had come, and the masses naturally looked to them to take command, but it is difficult to discover exactly how or why those particular men were chosen. The controversial and theoretical literature on the revolution is much more voluminous than the plain historical or narrative. However, the precise procedure matters little; the important fact is that they were placed in that position with general acquiescence.

This purely Socialist Ministry was extraordinarily free to do as it pleased. It was responsible to no Parliament, for there was none until the new National Assembly, for which a General Election was held on 19th January, had met some weeks later. And it had behind it, as I have shown, the mass of the people and of the army. If it had not, it would not have been accepted as it was. Dr Hilferding, the well-known Socialist leader, reporting to the 10th Trade Union Congress, at Nürnberg, on socialization, in the following June said:

“We had on the 9th of November an extraordinarily favourable position in regard to Socialization. . . . On 9th November the collapse had taken place and the working class were in a position to seize political power and assert themselves by its means. Why it has turned out otherwise I need not here explain. But for the purpose of Socialization we must consider that those months—November, December and January—were so far psychologically favourable for Socialization, inasmuch as wide circles of capitalist employers reckoned



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that their day was over. For instance, the opinion universally prevailed that for capitalist enterprise in coal mining the hour had struck. (*Hear, hear!*) The first Congress of Workmen and Soldiers Councils (Soviets) had at that time unanimously determined on the immediate introduction of Socialization in the mining industry.”<sup>1</sup>

Dr Hilferding’s colleague, Paul Umbreit, the Socialist trade union leader, went still further on the same occasion. He recalled the past, and particularly the Communist Manifesto of Marx, from which he quoted the famous concluding sentences: “Let the ruling classes tremble before a Communist Revolution. The proletariat have nothing to lose by it but their chains. They have a world to win. Proletarians of all lands, unite.”

He then went on:

“This fiery call to organization has for seventy years dominated the working class, and led them to political, trade-union and co-operative organization, inspired them to the fight against the economic and political power of Capital, and borne them upward to success after success. . . . Thus the German working class has been for decades schooled, organized and summoned to the fight for emancipation. For decades they have set their hopes on the time when the hour of the capitalist system, the hour of freedom for the proletariat, should strike, the birthday of the Socialist Society. And now this great hour has come. On the 9th of November 1918, by their victorious revolution, the German proletariat deprived the bourgeoisie of their strongest supports, the Monarchy and militarism, and won political power.”<sup>2</sup>

Whatever criticism may be passed on this statement as an accurate description of the situation, there is no doubt at all that it represented the general feeling among the masses. They had been urged all their lives to put the Socialists in power as the sure and certain means of gaining all that the heart could desire, and now it was accomplished. Indeed it is difficult to

<sup>1</sup> *Protocol of the Proceedings of the 10th German Trade Union Congress*, p. 39.

<sup>2</sup> *Loc. cit.*, pp. 7-8.

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see how the Socialist Party could ever gain, or hope to gain, political power more fully than at that moment. They were in complete and undisputed possession, with none to oppose their will. The old order had gone, swept utterly away and leaving its supporters discredited, abashed and impotent. So far as political power was concerned, the way was open for anything. What did the Government do to fulfil the expectations which their supporters—as Umbreit pointed out—had been led confidently to entertain? They appointed a Commission of Inquiry into Socialization, with special reference to the coal industry.

This was the first of many official inquiries into the problem, in Germany and other countries, and of innumerable private attempts to find a solution on paper. It meant that, being faced by the practical, constructive task of realizing the ideas vaguely contained in the word “Socialization,” they did not know how to set about it. More knowledge was needed before the actual reorganization of economic life could be seriously undertaken. They had, indeed, never really considered it. Marx had expressly declined to give any guidance on the subject, because it would have been at variance with his philosophy to lay down a constructive policy, and since they had sought no inspiration but his teaching they found themselves at a loss when the time for construction arrived. The wholly destructive, sterile and negative character of the anti-capitalist class-war Marxism, which had been obvious enough to onlookers, was suddenly exposed in all its nakedness. “At the historical turning-point from conflict to creation Marxian Socialism proved itself sterile.”<sup>1</sup> To pull down is easy enough; any fool can do it. To build up is another matter. The horizon of the German Socialists was bounded by the class conflict, they had not attempted to look beyond it. As Dr Sigmund Rubinstein says: “They had no other strategic idea, and indeed knew no other way of living, than the class-conflict.” They had provided themselves with “a democratic and social reform programme for the period of struggle, but a Socialist programme had not been thought out.”<sup>2</sup> The only positive conception was the bare

<sup>1</sup> S. Rubinstein, *Romantischer Sozialismus*, p. 36.

<sup>2</sup> *Op. cit.*, p. 31.

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idea of State ownership and control, originally put forward by Constantin Pecqueur in 1842 and taken over by Marx without any examination; but how to do it—to compensate or not, where to begin, how far to go, what form of organization to adopt—all these questions had never been seriously considered. Hence the Commission of Inquiry.

It was appointed on 18th November, and consisted of twelve distinguished Socialist politicians and economists, with Karl Kautsky in the chair. They were to lose no time, since the matter was very urgent, the Government having promised socialization, and after some preliminary deliberation in private they held the first public meeting on 4th or 5th December. (The date is given differently by different authorities.) The proletariat could not understand why there should be any delay at all; the transition had always been presented to them as a perfectly simple—almost automatic—proceeding. They continually clamoured for immediate results, and the Commission found itself constrained to report to the Workers and Soldiers Councils, on 10th December, that no immediate step could be taken, and that the existing system of private enterprise must be retained for the present, in order to restore production and trade.

This conclusion appears to give away the whole case, because the great argument for socialization is that it would increase production and improve trade by superior organization and efficiency, and this very argument was used by many Socialist speakers. "Germany must socialize," they maintained, in order to save the economic situation. As Umbreit put it: "Germany must socialize before it is too late, for Socialism is the only possible way out of the present state of things into which the Imperialism of all capitalist countries has led us. . . . Socialism alone can overcome the frightful consequences of this world-war, it alone can rebuild the shattered commonweal, convert again the wasted fields into fruitful ground, replace the sunk ships and restore the severed relations between the peoples of the earth. . . . We must socialize—we are compelled to do so not least by the peace conditions."

But if private enterprise must be retained because trade is

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bad, and the most urgent task is to improve it, the inference is that private enterprise is better able to cope with bad trade than public enterprise. I do not see how that conclusion can logically be avoided. It places the transference of economic activities from private to public control in the light of a luxury which may be indulged in when prosperity prevails and efficiency is of less consequence, but cannot be attempted when efficiency is vitally important. Probably the Commission meant only that immediate transference would involve some interruption of economic activity, which would be disastrous and could not be entertained. But this really amounts to the same thing. Can a highly developed economic society, whose life depends on continuous day-to-day production, ever stand an interruption of the process? The idea of a general strike is based upon the assumption that it cannot, and the experience of Russia shows what the effects would be in a country like Germany, which cannot feed itself—as some Socialist speakers pointed out in the ensuing controversy.

The first result of inquiry, then, was to pronounce any immediate steps impossible and to recommend a gradual and cautious advance towards socialization, beginning with coal and iron as the industries most “ripe” for conversion. The word “ripe” has become a favourite term in these controversies, but when examined it is found, like others, to hide many ambiguities and differences of meaning. That, however, belongs to the theoretical side of the question and is only mentioned in passing. The Commission in selecting coal and iron as the industries to be first taken in hand expressed a generally prevalent opinion. But how far their conclusions were at variance with what the men had been led to expect was shown at the Congress of Workers and Soldiers Councils held a few days later, and still in December 1918. In spite of all arguments and exhortations to the contrary, the Congress rejected postponement and called on the Government to “begin immediately with the socialization of all suitable industries, especially the mines.” But nothing was done, and the inquiry went on.

At this point it seems desirable, in order to make a very intricate story as clear as possible, to separate the political



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from the economic events, and treat them in turn, though they occurred together in time and reacted on one another. I will therefore deal with the political side first.

No overt change in the situation occurred until 29th December 1918, when the three Independent Socialists retired from the Ebert Provisional Government, and were replaced by two Majority Socialists. From then until the meeting of the National Convention at Weimar, on 10th February 1919, the acting Government consisted entirely of Majority Socialists. But meantime a great struggle had been going on ever since the revolution all over the country, with varying degrees of intensity, on the question of the constitutional basis of the Republic. It has been shown above that the revolution was preceded and accompanied by the widespread formation of Workers and Soldiers Councils (Soviets) to which some Peasants Councils also were added, all on the Russian model. This movement continued and spread with great activity, and the question arose, as it had arisen in Russia, whether these organizations should form the basis of the new political system or whether the ordinary principle of representation should be retained: should the supreme authority be a central committee of soviets or a parliament? The Right Wing Socialists were decidedly for the latter, the extreme Left for the former, and between the two a third group, less decided, but inclining rather to the Left than to the Right. For the two parties were now three: the Majority, the Independents and the Spartacists—an originally small group formed in 1916 on the extreme Left. They had fervently embraced the Bolshevik faith and had grown strong in the forcing-house of the revolution. On 30th December 1918 they founded the Communist Party of Germany. They naturally became the most active instigators of soviet-making and the most ardent advocates of a political system based upon those bodies, and absurdly called the Dictatorship of the Proletariat.

All this time the country was wildly excited; innumerable voices were raised expressing endless differences of opinions, and the utmost confusion prevailed. Anything might have happened, in the circumstances, and early in January 1919 a

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Communist rising did happen in Berlin. But the result of the struggle between the Soviet and the Parliamentary principles in Germany was the opposite to that in Russia. There the National Assembly, which embodied the Parliamentary principle, was suppressed in favour of the Soviets; in Germany it won the day, having been supported by a Congress of Workers and Soldiers Councils, on 16th December 1918. The Communist rising was suppressed, after lasting a week, and three days later, on 15th January, its leaders, Paul Liebknecht and Rosa Luxemburg, were assassinated. These acts of violence, which were later followed by many others, show how profoundly the German mentality had been disturbed by the war and its disastrous ending, and by the excitement of the revolution.

But the corner had been turned. On 19th January 1919 the elections for the National Assembly were held; on the 21st it was summoned to meet, and on 6th February it was opened at Weimar. Two days before, on 4th February, the Central Committee of Workers and Soldiers Councils had resigned. Nor is there any doubt that the choice between the two political systems corresponded with the general feeling of the people. If the vision of Moscow hypnotized some excitable minds, it repelled a far larger number of more sober ones. At any rate the die had been cast, nor has there ever been any real chance of reversing it. As the Russian experiment proceeded on its course it did not assume a more attractive appearance politically to a democratically minded people or present an economic example which any people in their senses would wish to follow. In the international camps of Socialism and Trade Unionism the Germans are the most weighty and determined opponents of Moscow, as they are the most vigorous critics of Bolshevism in the theoretical field.

With regard to their own position in Germany, the voting for the National Assembly showed that when the issue was referred to the electorate the Socialists, though stronger than before the war, were by no means so strong as they had appeared to be, either because they had never really possessed the confidence of the people or because a reaction had set in. The Majority Socialists secured 163 seats and the Independents 22

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making 185 out of 421; but the Centre, the Liberals and the Conservatives held 226, without reckoning the little groups. The Communists were unrepresented. The result was the formation of a Coalition Government—subsequently known as the Weimar Coalition—in which eight out of sixteen seats, including the Premiership, were allotted to the Socialists, while Ebert, who had been head of both the preceding Socialist ministries, was elected President of the Republic. It was a set-back for Socialism, which no longer steered the ship of State alone, but still had a strong grip on the helm and took rather more than half the responsibility. The new Ministry did not last much longer than its predecessor, and gave way to another formed on the same lines in the following June. The disturbances had continued. There had been general strikes in the Ruhr district and in Berlin; Soviet Republics set up in Brunswick and Munich; the declaration of a Rhineland Republic, and some more assassinations of prominent politicians—all signs of extreme dissatisfaction and wild excitement. This subsided during the second half of 1919, during which two important steps were taken towards a more settled order—namely, the signing of the Versailles Treaty and of the new Constitution, which had been prepared in the meantime. Early in 1920, however, trouble was renewed, in the shape of a five-days' military "Putsch" in Berlin, which caused the Government to remove temporarily to Dresden and then to Stuttgart. This was followed by a Spartacist rising in the Ruhr district. In spite of these exhibitions of folly by the extreme groups on both sides, the Coalition still held together, with various changes of ministers and ministries, until the General Election to the new Reichstag, which took place in June 1920, under the new Constitution and the most modern and complete apparatus of democracy—universal suffrage at the age of twenty and proportional representation.

The voting revealed a distinct hardening of opinion towards a more extreme attitude on both sides—that is to say, the Right wing moved more to the Right and the Left more to the Left. Thus the Socialists (Majority) lost 50 seats, but the Independents gained 59, and the Communists 2; and, on the other

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hand, the German National People's Party, who may be called the Diehards, gained 24 seats, and the German People's Party, which came next to them, gained 45 seats, while the Democrats lost 36 and the Centre 20 seats, the latter through the defection of the more conservative Bavarian People's Party. The weight had clearly moved towards the two extremes. With regard to the voting strength, the aggregate Socialist vote was about 11,500,000, against 15,500,000 cast for the anti-Socialist parties. The result made it impossible for the existing Coalition to continue in office, and a new one was formed by the middle parties, without Socialists or Conservatives, who would not work together. So the Socialists lost their hold on the helm for the time being. Nor did they ever regain it, though they subsequently entered into coalition governments in 1921 and again in 1923 (the "Great Coalition"). In the numerous shufflings that took place after 1920 they were more often out than in, and when they were in they wielded less influence than before. Their power, already weakened by the division into Majority and Independent sections, was further diminished by the splitting of the latter into two wings, the larger of which joined the Communists, who were under the control of Moscow. This tended to strengthen the Conservative reaction.

Some knowledge of these political proceedings is necessary in order to understand the position of Socialism and the movement of popular opinion in regard to it. But it would only weary and confuse the reader to follow in detail the interminable turns and twists on the political board. There have been 17 Administrations and 4 General Elections in Germany since the war, and the broad result has been a gradual decline of the relative influence of Socialism. It is true that the Social Democrats, once more united, are still the largest party in the Reichstag out of the 26 separate parties or groups which went to the poll in 1924. At the last election, in December, they polled 7,880,058 votes, or 26 per cent. of the total, and secured 131 seats in a House of 493. If we add the Communists, the total Left votes were 10,500,000, or 35 per cent., and the number of seats 176. But the Communists, though an element of interest in the general situation, are really a source of weak-



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ness and embarrassment to the Socialists—as they are everywhere. They have stimulated the remarkable growth of the Conservatives (German National Party), who have risen to be the second largest party, with 103 members, returned by over 6,000,000 voters, or 20 per cent. of the total, while the more important of the moderate anti-Socialist parties retain their place. This is notably the case with the Centre, which is the steadiest of all and has taken part in every one of the fifteen ministries. At the General Election in December 1924 it secured exactly the same number of seats, 69, as in the election of 1920. Its steadiness is the more significant because its support is derived mainly from the anti-Socialist workmen.

Of course all the conditions have been abnormal, and party politics have been affected all through by the successive troubles through which the country has passed—the foreign relations, the Treaty of Versailles, the military occupation, the reparations, together with internal difficulties, currency depreciation, economic chaos, taxation, unemployment. But these very troubles should have provided Socialism with its opportunity, as the military defeat and collapse did at first, and as Socialists themselves have pointed out. This brings me back to my starting-point.

What circumstances could be more favourable than the collapse of the old order, the creation of the Republic and the new democracy? That which has always been recognized as the first task, and the essential preliminary of Socialism—the conquest of political power—was accomplished, as it were, in a moment, beyond all former dreams. It was in their hand, and the new Constitution provided the standing means of retaining it, if their calculations were correct. But when they appealed to the people on the strength of it for a renewal of power they were refused; and successive appeals have rather worsened than bettered their position, so that they are now farther from their goal than they were seven years ago. Why? Partly because of their own internal dissensions and the violence of their Left Wing, which expressed itself only in terms of destruction, by risings and mass strikes, that had no other effect than to make things worse and stimulate reaction. No one has pointed this

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out and denounced it more emphatically than the Socialists themselves.

But partly also their failure to fulfil expectations, engendered and encouraged by half-a-century of propaganda, was responsible for the set-back. When the great day dawned, what did they do? As I have already said, they appointed a Commission of Inquiry. If it is urged that they could do nothing else I agree. That is just the point. When it came to action they were all unprepared, and did not know how to advance towards solving the most urgent and easiest practical problem before them—the socialization of the coal mines—without first exploring the ground. And, when it was explored, many differences of opinion and unexpected difficulties cropped up.

This brings me back to the economic field and the Commission of Inquiry, which we left sitting in December 1918. Its immediate task was to pronounce on the question of socializing the coal mines, which were by common consent the most ripe field for the harvest and the first to be taken in hand. The Commission did so on 15th February 1919, when it presented a formal report. But before dealing with this document some explanation of the situation in Germany seems desirable for the information of English readers, who are constantly confronted with the problem of the coal mines, but in quite different circumstances.

The question of the coal industry is similar in Germany and Great Britain in that one of the great difficulties in dealing with it lies in the wide differences in the natural conditions, but in other respects the position is very different. In the first place, a large part of the industry has long been owned and run by the State in Germany: the state of Prussia alone had over fifty-four collieries, producing 25,000,000 tons a year; in the second place, there is brown as well as hard coal; and in the third place, the privately owned collieries are highly organized in syndicates and combines. The last fact is the reason why there has long been a demand—by no means confined to Socialists—for interference by the State, mainly on the ground that closed and monopolistic organization of the industry stands in the way of new developments and prevents competition; but not on the

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ground of inefficiency. Here we have a most interesting contrast. In Germany the mining industry is ripe for socialization because it is combined and highly organized ; in Great Britain because it lacks organization and is the prey of chaotic competition. I cannot reconcile these arguments, which seem to me contradictory. If it is urged that private ownership is wrong anyhow, and that it does not matter whether there is combination or chaos, that is a consistent proposition open to argument ; but to maintain that it is wrong in one place because it is organized, and in another because it is not, is a proposition for Bedlam.

The Commission had to examine the whole situation, including the State mines as well as the private ones, and here another instructive fact emerges, which is that the State or nationalized mines have also long been the object of general criticism and dissatisfaction. The Commission, indeed, condemned them unanimously, and not less emphatically than the private mines, and that on the still more serious grounds of inefficiency, through bureaucracy, red-tape, favouritism in appointments and promotion, political influence, lack of a sense of financial responsibility, slackness, slowness, delay and low rates of pay. No diehard free trader has ever condemned State enterprise more roundly than this Commission, consisting of Socialists and sympathetic economists. But the question has such an important bearing on the whole subject of Socialism that it will be best to give the Commission's own words on both the private and the State mines. They are the more weighty because this part of the Report was unanimous, whereas there was a division of opinion on the practical reforms to be recommended.

REPORT OF FIRST SOCIALIZATION COMMISSION, 15TH FEBRUARY  
1919

### *I. General Considerations*

Already, before the war, State intervention in the mining industry and the disposal of coal had been almost universally demanded by economic politicians, not only in socialistic but also in all socially interested circles. The reason for the need of such an influence exercised by the community in its own

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interests does not lie merely in the fact that coal forms the basis of our entire economic life. In England and America the notion of "nationalizing" the mines has not been advocated to anything like the same extent as with us. But in Germany the situation is governed by the special circumstance that by far the largest part of the coal industry, in so far as it does not belong to the State, is combined in monopolistic syndicates and combines organized by districts, and that apart from this organization—which has already lasted for a quarter of a century, though it is terminable and does from time to time run out—the possibility of starting new competitive undertakings is reduced to the narrowest limits by the less favourable conditions under which new pits work as compared with the old ones, so that the installation of new works is carried on under rising costs and diminishing returns as against the old.

This fact is far more important for the monopolistic position of the industry than another factor, though that is also of importance—namely, the fact that the virgin coal-fields—apart from those belonging to the State—are to an overwhelming extent concentrated in a few hands, who are, moreover, the royalty owners and the large coal interests. It is common knowledge that the last large fields have passed from the possession of the International Boring Company to that of the Rhine-Westphalian Mining Company, whose partners—the chief members of the Coal Syndicate—regard them as a reserve for a later period. No one can doubt that the combined coal-owners possess an economic monopoly over wide areas of the German Reich. By economic monopoly we mean a market situation in which competitors are practically unable to deal with anyone but the monopolists except at a heavy sacrifice, or else the sole sellers have the economic power to bring about that state of things but nevertheless prefer to depress the selling price down nearly to the level of the cost of production and take the difference as a quasi-rent for themselves. It is equally indisputable that we have to do with a permanent monopoly because of the ownership of the means of production, which most competitors cannot command at all, and the few potential producers only under substantially less favourable conditions.



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It can be taken as undisputed that this monopoly in the most important of raw materials constitutes a condition of domination, which is incompatible with the character of the modern State, and not only the socialistic State. It appears unnecessary to reopen the question whether and in what degree this domination has been abused to the injury of the rest of the population, dependent industries, consumers and workmen; the fact that it persists is sufficient to make the necessity of its complete abolition evident.

### *2. The Question of Nationalization*

Closely connected is, of course, the idea of nationalizing the whole mining industry and the disposal of the products.

The Commission is nevertheless unanimously convinced that the present organization of the State mines does not answer to the economic requirements, and that a complete transformation of the conditions must precede any extension of this influence to the whole industry. Without entering into the question of the superior productivity of the workmen in the existing State or private mines, the Commission unanimously holds that the entire official organization, the conditions of appointment, promotion and pay, the budgeting and book-keeping; in short, the whole system in the normal State undertaking with its bureaucratic conception involves serious obstacles to the economic exploitation of the mines. Every extension of the State concern is uneconomic and consequently to be rejected so long as this economic activity of the State is not completely severed from its political and administrative functions and so long as a thorough break is not made with the bureaucratic traditions of State economic undertakings. The proceedings of the Commission have revealed, along with all the advantages of State mining administration, such glaring examples of the incompetence of this clumsy State organism that no doubt at all remains of the necessity of a complete transformation even with the present extent of State mining. Highly qualified officials overwhelmed with petty tasks, objectless changes of appointments, rates of pay absolutely low, and

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in comparison with private industry positively ridiculous, restriction of free functional activity, widespread lack of the sense of responsibility in financial matters, multiplication of references to superior departments up to dependence on Parliament, years spent over questions which would be decided in a few hours in private industry ; in short, control piled on control instead of confidence and encouragement to independent decisions—these are the marks of this organization, in which the most capable and financially disinterested officials, so far as they stay there at all, find a satisfying field of work only of the most restricted kind, and to which even the sense of honour and duty of Prussian officialdom, in spite of the standing opportunities of comparison and stimulation afforded by the competition of private industry, can never give a really economic direction.

Quite apart from these defects, the Commission is of opinion that the isolated nationalization of mining, while capitalist economy continues in other branches of industry, cannot be regarded as socialization, but only as the substitution of one employer for another.<sup>1</sup>

The last sentence, which confirms what many opponents of Socialism, and particularly Syndicalists, have said, makes the prospects of socialization look rather hopeless, at any rate on the lines previously contemplated. But it was probably meant to lead up to the proposals for a new form of organization. For there were two proposals. The commissioners were unanimous in condemning both private and State mines, and also in regard to the status to be given to the miners and the methods of pay for both miners and staff. They further agreed in recommending the establishment of a National Coal Council to control the whole industry. But they differed on the details of the scheme and produced two proposals. The first, signed by seven commissioners, was for what is called "full socialization," whereas the second, signed by two commissioners (two others were absent), was intended to prepare the way for it more gradually. Briefly, the idea was to make all mines the property of the State, but to hand over the control to a statutory body of 100

<sup>1</sup> *Bericht der Sozialisierungs Kommission*, pp. 31-33.

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—formed of representatives of the management, the miners, the consumers and the State in equal numbers. The majority proposed the total exclusion of all private capital; the minority held that this could not be advantageously done at once. It is clear from these two reports that the question on which they were divided—and on which opinion always will be divided—is the difficulty of combining freedom with control and of retaining initiative and enterprise, the value of which has come to be recognized by all intelligent Socialists, in a system from which self-responsibility for failure or success is removed. It is a psychological problem for which no complete solution has yet been found.

The Report as a whole did not make a strong impression, partly because it was divided, partly because it went too far for some people and not far enough for others. It was felt to be a lame result for such an important inquiry, and the Commission was not encouraged to continue its labours. But on 23rd March 1919 the National Assembly, which had come into being since the issue of the Report, passed a general Socialization Act, of a permissive character, which contained a clause for the regulation of the coal industry. Clause 2 of this Act runs: "The Reich is authorized by means of legislation, and with appropriate compensation, (1) to transfer economic undertakings suitable for socialization, particularly those devoted to the extraction of minerals and the utilization of natural forces, to social economy (*Gemeinwirtschaft*); (2) in the case of urgent need to regulate socially the production and distribution of goods."

Clause 4 runs: "In pursuance of the power provided by Clause 2, the exploitation of hard coal, brown coal, pressed coal and coke, of water power and other natural sources of energy and of the energy derived from them, will be regulated in accordance with the point of view of social economy. Simultaneously with this Act, a law concerning the regulation of coal comes at once into force for that branch of economy."

In virtue of this law the private coal industry was consolidated into a National Coal Union and placed under the supervision of a National Coal Council, composed of owners, miners,

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consumers, dealers and experts; but this constituted no real measure of socialization, and made, in fact, very little difference. The chief result was to cause the question to fall for a time into the background of practical politics. But it continued to be discussed with great ardour, and in the following year the Government, which had prepared an abortive Bill, was constrained by popular pressure from the mining districts to return to the problem. It did so by reconstituting the Commission of Inquiry on a broader basis, with a mandate to try again. This was in May 1920. In the meantime there had been other legislation reports from the Economic Ministry on the mining industry and resolutions passed by miners' unions. But the difficulties remained, and the result of the renewed inquiry was not appreciably different from that of its predecessor. If anything it was rather less united. The Report issued in July 1920 contained two proposals, which were laid before the National Economic Council, a sort of advisory parliament that had been set up in the meantime. The question was examined by a committee of the Council, with the aid of further inquiries by experts, but no agreement was reached. Eventually the plan of nationalizing the private mines was abandoned, in view of the Treaty of Versailles, and the question was reduced to their reorganization. The plan finally adopted for this purpose, and embodied in the National Coal Economy Act, was an amended form of that already described. The pits were grouped in eleven district syndicates, with a central body called the National Coal Association, and placed under the control of a National Coal Council, composed of 100 members, representing the owners, the miners and the consumers in equal numbers, and armed with large powers. This is a measure of industrial reconstruction of a social character, tending to restrict the power of owners or employers, but it does not touch the essential principle of ownership and there is no Socialism in it in any definite sense of the term. So much for the privately owned mines.

The history of these proceedings reveals the difficulty of putting theory into practice even in a single industry, selected as the most suitable and in the most favourable political



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conditions. But the story of the German coal mines does not end there ; it contains another interesting chapter. Mention has been made before of the Prussian State mines in connexion with the plan of a unified national system to include all mines. Though that was abandoned, something has since been done with the State mines owned by Prussia. These mines had been greatly diminished in extent by the provisions of the Peace Treaty, but they were still considerable and thoroughly mismanaged. The unanimous condemnation by the Inquiry Commission already mentioned is fully confirmed by the account of Herr Osterroth, a trade union leader, who was for years adviser on mining to the Ministry and intimately acquainted in particular with social questions in the industry. His account was written for the Social Democratic Party's handbook for the Landtag elections in 1924. He is a member of the party. He also took a leading part in the debates in the Landtag on the Reconstruction Bill in 1923. He points out that at the beginning of the nineteenth century the State had in Prussia an absolutely dominating position in mining and an almost complete monopoly of metalliferous and iron-ore mines. But in the subsequent great expansion of the industry it took very little part, though it could easily have secured a State monopoly of mining ; in which case, I may add, there would evidently have been no development, for private enterprise did it all, and the State only acquired collieries already established by private owners. Its administration, according to Herr Osterroth, was thoroughly bad ; it lacked the necessary power of decision ; the management had not the freedom of creative effort ; the sense of responsibility died out and every manager "squinted upwards," as the "unspeakably sad legal action in the Saar district at the beginning of this century revealed." In short, technical inefficiency and political corruption. Reform had been demanded for years, and after the war it became more urgent than ever.

After exhaustive examination of the position from all points of view it was decided by the Prussian Landtag that the best way of dealing with the mines was to turn them into a company, of which all the shares are in the hands of the Ministry

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of Commerce and the Ministry of Finance in equal parts; but the Law, which was passed on 9th October 1923, allows for the issue of other shares, and implies that there may be other owners. The collieries and associated works of the company, which is called the "Preussag," are managed by four directors, all with expert knowledge of the industries; and over them is a Supervisory Council, composed of representatives of the Government, the Landtag (and each political party in it) and all the miners' unions (including the principal federations, the Christian unions, and even the Communists). Control is also exercised by the General Assembly. Herr Osterroth, who is one of the directors, says that the company form gives the undertaking the widest freedom of action in technical, commercial, organizing and social-political relations; the individual manager has much more responsibility to bear than before, and is not fettered in his initiative; favouritism is abolished and all have to exert themselves to keep their place. Promotion can be earned only with the head, *nicht mehr mit dem Sitzfleisch*—a picturesque phrase which would be spoilt by a polite rendering. He calls the change "de-bureaucratization" and says that the system was working well nine months after its inauguration. It has continued ever since, and in 1924 realized a surplus. In May 1926 a Bill was introduced in the Landtag for a subsidy of 30,000,000 marks, which suggests active development of the mines, but inability on their part to provide the necessary capital out of revenue.

This "commercialization" of State mines by introducing the form of organization characteristic of private enterprise, for the sake of efficiency, is typical of a general tendency. The State railways, united under the Reich, have been similarly treated; and the fact that this was done largely to meet the Dawes Reparations Scheme rather strengthens the case than otherwise. The State war industries are another example; seven of them have been converted into as many companies, from which private capital is not excluded, and six have been closed down with the intention of disposing of them to private owners. A third example is that of the Berlin municipal undertakings. Since this tendency is not accompanied by a counter one for

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the conversion of private into public ownership, it seems to lead rather away from than towards Socialism, as commonly understood ; and the extreme need of efficiency in Germany to-day, in her difficult position, makes the movement all the more significant.

Before leaving the subject of Germany, some reference must be made to the condition of affairs in the constituent states of the Reich, which are to a certain extent self-governing and have their own administrations, though they are all subject to the constitution and laws of the realm. The most important are the former kingdoms of Prussia, Bavaria and Saxony. They are, of course, all republics now, and are apparently settling down, but not without having gone through a whole series of disturbances following on the general revolution.

### BAVARIA AND SAXONY

I have already explained in the Introduction the two alternative and rival methods of realizing the Socialist order of society on which the whole movement has been split in two : (1) the violent and complete method called Communism and (2) the constitutional and gradual method called Socialism. Both have been attempted in Germany. The first was beaten at the centre and virtually extinguished as the policy of the Reich at an early date, and I have traced the course followed by the second. But at the circumference the policy of violence did not yield so easily, and asserted itself in various local risings, intermingled with others of a different character and due to different causes. Besides Communist risings there were military and patriotic ones, and others demanding separation and independence. They must not be forgotten in any general survey of Germany since the war, but they have no direct bearing on my proper subject, and I will make only two remarks about them. The first is, that all local disturbances, from whatever cause, embarrassed the Government of the day and contributed to the instability which has been such a marked feature of German political life, with its inevitable reaction on economic as well as on foreign affairs. The second is, that separatist agitations

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were largely due to the greater centralization of government under the new order, and the consequent loss of independence and diminution of local self-government, which are still acutely felt, particularly in Bavaria and Saxony. These considerations and the play of mixed motives must be kept in mind. But some of the risings were of a purely Communistic character, due to agitation by the extreme Left and inspired by the example of Russia. They occurred sporadically for years, beginning in 1919 and reappearing at intervals down to the end of 1923; it is only since 1924 that the country has been comparatively free from these disturbances and has entered on a period of more peaceful development. But even now it is liable to a Putsch from either extreme—from Communists or Nationalists—as recent events have shown. The latest display of the kind is from the Nationalists. But these adventures have no serious import. Putsch, which conveys an indescribable contempt, is a good word for them. They are merely childish exhibitions of the insatiable pugnacity of mankind, which distinguishes that race from other animals, and has throughout history exercised itself more often and more fanatically about opinions than about real interests. It is the way of pugnacious partisans to take the means for the end, make it an end in itself, and pursue it at all costs, even to the ruin of the real object and the triumph of its opposite.

The Communist risings have more to do with my subject than the Monarchist attacks, but it would serve no useful purpose to describe or even to enumerate them. They were all complete failures and doomed to failure from the start. They had no capable leaders or any real strength behind such leaders as they had. They merely illustrated once more the purely destructive character of this method of introducing Socialism, which cannot be accomplished without civil war, as Lenin truly said; and civil war, as he also said, is more destructive than international war. They are now regarded as things of the past and are buried in a studious oblivion. But they had the inevitable effect of provoking reaction and damaging the cause of the moderate Socialists. That was particularly the case in Bavaria, where the most formidable and successful of all these



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attempts was made, in April 1919, when a Soviet Republic was set up in Munich and lasted for nearly a month. Two days before, Kurt Eisner, who had opposed Bolshevism from the first, had been murdered. To-day the Social Democrats are very weak in the Landtag, with 23 members out of 129, against the 48 of the Bavarian People's Party and the 23 of the Popular Bloc. They polled in the last election only 500,000 votes out of 3,000,000. The Communists polled less than half as many and secured 9 seats. In the Prussian Landtag the Social Democrats are still the largest single party, with 114 seats out of 450; but relatively to the Conservative and Middle parties they are considerably less strong than in the Reichstag. The Communists have 44 seats. Together the Socialists and Communists total 158 votes, against 263 commanded by the German National People's Party (the most Conservative and, with 109 seats, nearly equal to the Social Democrats), together with the Centre, German People's Party and Democrats, not to mention smaller groups.

I have not the corresponding figures for the Saxon Landtag, but Socialism is much stronger there, as it always has been. It was in Saxony that the German Socialist Movement originally began, in 1863, and it still remains a great stronghold. In 1924 the Socialists polled more votes for the Reichstag election in the Dresden division than in any other constituency throughout Germany, with Leipzig and Chemnitz well up behind. But they had polled still more in 1920, while the Conservatives, on the other hand, gained ground between the two elections. One reason for this was that a Communist rising, and the last of them, had taken place in Saxony towards the end of 1923, when a Socialist-Communist Government was set up for about a fortnight, and troops were sent into the district by the Central Government, which ordered and carried out the deposition of the Saxon Cabinet and temporarily installed a civil dictator. The whole episode is shrouded in a veil of obscurity, which I have failed to lift as fully as I should like, though I have seen the places where machine guns were posted in Leipzig and Dresden; but so far as I can gather it was like many other manifestations of the same kind.

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Saxony is a predominantly industrial country, second only to the Rhineland, if second at all; and the people there were suffering real hardships and grievances. There were, in fact, food riots. Discontent had been growing for a long time and furnished the right soil for agitation. What with the revolution, and all the other excitements, it would have been strange if the Communists had not found the opportunity favourable for their plans. They reaped where the Socialists had sowed for many years. Zinovieff, with his usual blundering loquacity, let it out that he expected a general rising in Germany, and there was, in fact, one in Hamburg as well as in Saxony. It seems clear that the Socialists were themselves rather alarmed at the turn things were taking, as has so often happened in similar circumstances, and they joined with the Communists to form a Government in order to exercise a moderating influence. Perhaps they might have succeeded, as they averred, in keeping order without the interference of the Central Government; but more probably they would not, and the interference really averted far worse trouble. For the crisis passed off, after all, with very little use of force. The idea, entertained in some quarters, that the whole thing was merely an excuse for military preparations seems to me quite mistaken. The other explanation is perfectly natural, and in keeping with all the circumstances.

There is no doubt that a serious crisis faced the Central Government—a Coalition one which included several Socialists—and that a display of force was justified. For there was trouble in Bavaria at the same time, and though it arose from a totally different cause, disorder is disorder; once begun it is apt to develop by contagion—without regard to particular causes—among an excited populace. Anything might have happened if these two simultaneous but contrary movements had been allowed to develop. The Bavarian trouble was the famous Hitler-Ludendorff Putsch in Munich in November 1923. (We have no equivalent for "Putsch" in English; it is used to signify an ill-judged, artificial and abortive disturbance.) It arose from a mixture of motives—reaction against the earlier Communist excesses, anti-Semitism, and the national

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feeling of resentment against the domination of Prussia and the Reich. In 1922 the Majority and Independent Socialists had joined hands, and there was formed in opposition a new party, calling itself the German National Socialist Workmen's Party, or the National Socialist Freedom Movement. It was a sort of anti-everything movement, and it developed a species of Fascism. Hitler was, or became, the leader. Ludendorff joined him, because of the nationalist element, and large ideas of a Pan-German counter-revolution, with a dictatorship, seem to have been entertained. There was at one time some nonsense about marching on Berlin.

In the earlier part of 1923 tension increased between the Socialists and the National Socialists, and some encounters took place. The situation assumed a more and more menacing aspect, with drilling and arming of the Nationalists, and in September the Bavarian Government appointed a special State Commissionership, with full powers amounting to a dictatorship, but it was exercised with injudicious and promiscuous severity. Then food riots occurred, because the peasantry refused to bring their products to town to be exchanged for a currency which had become worthless. The position really looked alarming; but when the day arrived for the Putsch—8th to 9th November—the Ludendorff-Hitler forces, after an initial success, were completely outgeneralled in Munich by the regular troops, and the leaders covered themselves with ignominy. The great Ludendorff outgeneralled in the streets! The whole thing fell to pieces, and though some bullet-marks are still to be seen on the walls at the scene of battle in Munich very little damage was done.

I have failed to discover in Bavaria any advance towards Socialism in the way of extended public undertakings or inroads upon private enterprise; nor is any mentioned in the extraordinarily full *Bayerrisches Jahrbuch* for 1926. There are extensive State domains, chiefly forests, and other institutions, but they are the old ones, and are apparently administered as before. In Saxony, however, a great scheme has been developed. It is on the lines of the Prussian Mines and Works Company (Preussag) already described, and in reference to

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which I have discovered some information since I wrote. The report of the directorate for the year ended 31st December 1924 states that the company had extended their operations, and the balance sheet shows that they were able to pay over £50,000 to the Prussian Treasury and to carry forward £77,000. But the Saxon scheme is far more ambitious. It is described in the *Jahrbuch Sachsen* for 1926 by its chief creator, Dr Peter Reinhold, Finance Minister in the Saxon Government until last January, when his exceptional ability was acknowledged by an invitation to become Finance Minister to the Reich. This happened on the day before I was fortunate enough to see him for a few minutes immediately on his return from Berlin, and to obtain some information I needed about these works.

He explains in his account that the new State, created by the revolution, found itself in possession of a somewhat promiscuous collection of various concerns, dating from the days of August the Strong, and other kings, with additions made from time to time. The defects of State administration, on which I have already quoted some strong opinions, were fully recognized in Saxony, and in 1922 a law was passed for the commercialization of these undertakings with a view to replacing bureaucratic administration as far as possible by the "business principles that obtain in private enterprise." He adds that in carrying out this law he never expected to secure for the State concerns complete freedom from all fetters, but only an improvement; "the psychological and other hindrances in State enterprise are too great to be abolished by a law." A further step was necessary. Concerns destined to undergo a large development must be completely freed from State control and turned into companies on the legal footing of private concerns. This secured two great advantages: the control of their own finance and freedom to decide all questions on business—not political—grounds.

Two fields of activity in particular were suited to the development of State economy on modern lines—motor transport and power production; and these have been developed. The passenger motor traffic is run by one company, the goods



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traffic by another. But the greatest enterprise is the production and distribution of power, which is in the hands of the "Aktien-gesellschaft Sächsische Werke." Two electrical power stations were designed in connexion with two brown coal mines. One is now working with a capacity of 100,000 kw.; the other is in course of construction. In addition, the application of water-power to the production of electricity has been taken in hand on a large scale. Three power stations were at work in 1925, and a fourth began to deliver in 1926. Dr Reinhold declares that when these undertakings are completed Saxony will stand in the front rank of industrial States in this respect. The technical development is attested by the output of power, which rose from 14,000,000 kw. in 1913 and 144,000,000 kw. in 1921, to 480,000,000 kw. in 1925. Financially also the adventure is successful. It was rendered possible at the start by an American loan of \$15,000,000, and it is calculated to have earned last year a dividend of 10 per cent.

These Saxon State enterprises seem to constitute a more effective advance towards a sort of Socialism than the Prussian ones, because they extend boldly into the field of modern economic developments; but they are run on strictly business lines, and neither displace nor are intended to displace private enterprise. Dr Reinhold says that the aim has never been to strangle private enterprise and thereby diminish the class of private taxpayers. On the contrary, the revenue from them serves to reduce the burden of taxation and so contributes indirectly to increasing the competitive capacity of the home industries.

In conclusion, let me say that Germany has suffered greatly since the war, and the people cherish no illusions about the disastrous results of that adventure, whatever military and patriotic apologists may say. It is a sick land, and still suffering. At the beginning of the present year unemployment rose suddenly and rapidly, and by the middle of February the register exceeded 2,000,000. I found manufacturers in a state of something like despair. They could not sell their goods in foreign markets and complained of English competition and the dumping of English coal. Since then the position has

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improved; the general strike here and the cessation of coal mining have given the Germans a lift. They will recover, for they are bent upon it; they have the strength and the will. It is realized on all sides that the first step to national health and strength is economic recovery. The Putsch-makers are of no real importance. The people at large have no intention whatever of submitting themselves to the yoke either of Potsdam or Moscow; and above all they have no intention of going to war again, whatever hopes may be cherished of some nebulous future. But so far as Socialism in the old sense is concerned, it is entertained to-day only by the Communists. The views and attitude of the Social Democrats have changed, as is shown in a later chapter.

The actual course of social economic development has not been towards socialization as provided for in Article 156 of the Constitution, which contemplates the expropriation (with compensation) of private undertakings and their transference to public ownership, but rather in the direction indicated in Article 165, which provides for the formation of works councils. This, however, belongs to another part of the subject, to be dealt with later. In spite of the Socialization Act quoted above, and the special Electricity Socialization Act of December 1919, there has been no expropriation, and the private coal mines have been otherwise dealt with, as already explained. The only other large field that has been affected among those examined with a view to socialization is the potash industry, and that was treated in the same way as the mines by an Act passed in July 1919. Socialization is to-day in a state of suspended animation, or has completely changed its meaning, in Germany.

## CHAPTER IV

### AUSTRIA

My respect for the Austrians has been greatly increased by a study of their doings in the last few years. No people emerged from the war so exhausted, shattered, torn and helpless; none have made such a decided recovery from an apparently hopeless position. They have been helped, but without their own energy and good sense outside assistance would have availed them little. And in this recovery the Social Democrats can claim no small share. One of the most distinguished of them, Dr Otto Bauer, who was Foreign Secretary in Dr Renner's Ministry in 1919, has written a really harrowing account of the plight of the country immediately after the war. It may be rather highly coloured—he commands a forceful and eloquent style—but the broad facts of the situation are undeniable.

The Austrian Empire began to break up visibly in October 1918, before the end of the war, through mutiny on the Italian front, revolt and disintegration at home. The demission of the Kaiser on 11th November was merely the formal acknowledgment of a revolution which had already taken place. "The people," he said in his proclamation, "have, through their representatives, taken over the Government." This had happened on 30th October, when the National Assembly, set up in accordance with a resolution unanimously passed at a meeting of the German-Austrian members of the Reichstag on 21st October, formally entrusted the government to the State Council, which was made up of representatives of all parties. The constituent parts of the Empire outside the German centre—particularly Bohemia and Hungary—had already broken away and asserted their independence, leaving German Austria isolated. The proceedings just mentioned refer only to it, and they show that the revolution there was carried out in a peaceful and constitutional manner. The State Council distributed the ministerial offices impartially among the several parties, and two fell to the Social Democrats, who were not

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very strong, with two under-secretaryships. Dr Renner became secretary to the Council itself.

But the prevailing confusion, and particularly the attitude of the working classes, who expected a social as well as a political revolution, soon gave the Socialist section an influence in the Government far beyond their number. The new State was threatened, by the sudden disappearance of the old order, with anarchy, and came very near to it. The war industries ceased abruptly and thousands were thrown out of work; but the greatest danger came from the soldiers. All discipline was gone; the army disbanded itself and the men rushed home, including hostile Czech and Hungarian troops returning through Austria to their own countries. No one would perform any service; the depots, magazines and prisoners' camps were unguarded; food was scarce and looting began. The danger was averted by the formation of a new paid militia, in which the unemployed enlisted in large numbers; they submitted to discipline and undertook defensive duties.

But other troubles soon arose and multiplied, both internally and externally. Unemployment increased, food and coal failed through the hostility of the Czechs, who had previously supplied both; strikes occurred and attempts were made to set up a Communist Government. In all these and other troubles the Social Democrats kept their heads and gained weight in the Government, because they alone could exercise a moderating influence over the excited people in the towns, who looked to them for leadership. This was shown in the election for the Constituent Assembly, held to lay down the new Constitution in February 1919, when they, who had been the weakest of the three chief parties, became the strongest, with 69 members. Next to them came the Christian Socialists, with 63, while the Nationalists, who had been the largest party, mustered only 24. The figures are Dr Bauer's. The Christian Socialists, it may be observed, have formed an important political and trade-union factor since the war, not only in Austria but in several other countries. They are really democratic Conservatives, opposed to Socialism. In Austria they are pre-eminently the party of the farmers and peasants, who were at this time by no means



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on good terms with the more socialist urban workmen. They had suffered severely during the war through the ruthless requisitioning of everything, and they hailed the revolution with joy ; but they soon found that they had only changed one hated oppressor for another. Requisitioning for town workmen's committees was no less detested than the same process by the military authorities, and an embittered conflict of interests arose. But apart from this the two parties had something in common among the agricultural population, whereas in the towns they were opposed on principle. Since, however, no Government could be formed against either, the only way out was for them to come together. This they did in March 1919, when a Coalition Government was formed ; but the lion's share fell to the Social Democrats, with Dr Renner as Chancellor, and they really ruled.

So the Socialists came to power, and deservedly. When the revolution came they were the only party that had a policy, or any influence over a distracted people ; and they used it with much sagacity to restore order, prevent excesses and protect their remnant of the Empire from dangers within and without. They continued to do so in the crisis brought on soon after by a determined effort to establish a Communist Government on the basis of the workmen's councils that had been formed in 1918. There was a general outburst of Communism at this time (March 1919) in connexion with the newly established Communist International at Moscow, and Austria's neighbours to the east and west both succumbed to it. I have already mentioned the Communist episode in Munich, which lasted a month ; the simultaneous one in Budapest was more successful, and after lasting some five months was put down only by Rumanian troops, though subsequent events showed that it had no real popular support. The leader, Bela Kun, made great efforts to cajole or coerce the Austrians into following his example, but the Social Democrats stood firm, and under their influence the workmen's councils themselves turned down the proposal. It was the best chance Moscow ever had or is likely to have.

What else did the Austrian Socialists do in the commanding

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position they had won? They had not such complete power as their German colleagues had enjoyed in the winter of 1918-1919, but they had enough for at least an attempt to get on with socialization. It was expected and demanded by their clients, who were not satisfied with the measures of social reform that had been introduced, but clamoured for the new order that was to free them completely from the yoke of private employers without handing them over to the equally obnoxious rule of the State. Faced by this practical task the Socialist Ministers followed the German example and set up a Commission of Inquiry into Socialization, of which Dr Bauer himself was the president. The subject had by this time become a regular craze, not only among intellectual Socialists, but among other economists, more or less in sympathy, and even among the "bourgeoisie." It was like a cross-word puzzle; everyone was busy trying to solve it, and it was discussed from every point of view. Within a few months, as Dr Bauer says, a whole literature on the subject sprang up, and Austrian professors of economics were among the foremost contributors. Like the Austrian school of Socialism, the Austrian economists have long been distinguished by intellectual vigour and independence. Some of the most effective criticism of the Marxian theory has emanated from them. They are racially German, of course, like the Austrians in general, but there is a difference. Some of them took an active part in the German inquiry that I have already discussed, and produced plans for socializing industry. If there is very little or no practical result, it is not for want of expert advice or ample discussion. I shall not go into that now because it belongs to the theoretical side of the question, but in judging the outcome it is necessary to appreciate the vast amount of labour devoted to the solution of the problem by men of the highest capacity, including the late Dr Walter Rathenau, one of the most lamented victims of the wave of assassination, a man of rare gifts, whose untimely death was a great loss to his country.

Among other problem-solvers was Dr Bauer, who produced and applied a plan of his own. It was drawn on familiar lines and resembled many others that appeared about the same time,

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as he admits. The essential idea was to combine the State, the persons actually engaged in the industry, and the consumers, in an organization containing representatives of all three. As everyone conversant with the subject will see at once, there is nothing new in this combination; the interest lies in its application, for it was applied, and, so far as I know, the Austrian experiment is the only practical attempt yet made to realize this form of industrial organization in detail. He obtained the necessary legal powers by an Act passed in July 1919, and at once proceeded to use them. The best opportunity lay ready to his hand in the State-owned war industries, which had been deprived of their functions by the cessation of war. Here the field was clear for an experiment without hindrance or serious opposition. It was obviously to the general advantage that these establishments should be carried on successfully, whether for the sake of the unemployed or of the State. They had passed out of the control of the military and come under civil administration, which proved totally incapable of carrying them on, and to keep them going in order to avoid wholesale dismissals of workmen imposed a heavy burden on the State. On the other hand, to sell or let them in the existing circumstances would have entailed a heavy loss of substantial assets, for they were all loaded with large deficits, capital was scarce, and buyers shy. The only alternative was to create a new form of undertaking which kept the concerns as public property but conferred on them "commercial mobility, free from the strait-waistcoat of bureaucratic control."

Here, again, we have State control once more condemned and the need of commercial principles recognized, as in other cases previously cited. But Dr Bauer's scheme differed from them, and conformed more to current ideas of a new order, in that he held it essential to give the workmen employed a large share in the management. They had, he says, saved the works and stores for the State by protecting them from being looted, and had gained an increasing control as the civil administration proved incapable of running them or of restoring order. "It was obvious that the works could be brought back to regular production only with the active participation of the

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works committees." He began in a small way by setting up the "United Leather and Boot Factories." This undertaking was founded by the State in conjunction with the Austrian Wholesale Co-operative Society, as representing the proletarian consumers, and the Agricultural Goods Exchange, as representing the rural consumers. The State contributed the boot factory in Brunn and the two co-operative institutions the working capital, besides undertaking the marketing. The highest directing authority was the Institute Meeting, composed of representatives of the State, the two co-operatives, the works committee, and the trade unions to which the men employed belonged. This first venture met with encouraging success. Production was soon set going and work intensified; the first year's accounts showed a substantial net profit. The second, called the Austrian Drug Store, was equally successful. This was started by the State, in conjunction with the Vienna Hospital and Sick Funds, to take over the functions of the Medical Supplies Department of the Army and supply public institutions with drugs.

In October 1919 a change of Ministry took place, and Dr Bauer gave up the chairmanship of the Socialization Commission; but the work was energetically carried on by his successors, and gradually "a whole system of co-operative undertakings was developed." The type of organization varied considerably. Some war factories were converted into complete co-operative concerns; for instance, the Vienna arsenal into the "Austrian Works," and the Puntigam factory into the "Styrian Lorry Works." In other cases, war factories were combined with co-operative and private concerns in a mixed form of organization. Then new co-operative concerns arose that had no connexion with war industries, but served new needs—for instance, the Co-operative Settlement and Building Materials Institute and the Wood Market Institute. Finally, enterprises were started which took the legal form of companies, not co-operatives, but which were constituted in the same or a similar way.

Dr Bauer was naturally very pleased with the early success and extension of his scheme, and took an optimistic view of its



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possibilities. He claimed that it had proved superior to bureaucratic organization—which was likely enough—but he also thought that, though it had not broken down the domination of capital over production, it had planted in the capitalist system of production “germ cells of the future socialistic system.” Perhaps it had; but the question is, did they grow? He was writing apparently in 1922, and much has happened since. Austria stabilized her currency in that year, and, though she has passed through some bad times since, her economic position has vastly improved. Ordinary industry and business have revived and capital is no longer scarce. When I asked about those State enterprises I was told that they had been gradually dropped or had changed their character and gradually reverted to the ordinary commercial type. I have failed to find any mention of them among other public undertakings in the latest issue of the *Oesterreichisches Jahrbuch*. The cells, instead of multiplying and squeezing out the capitalist structures into which they were introduced, appear to have been squeezed out themselves. There is just a hint of something of the kind in Dr Bauer’s own account. In describing the difficulties they had to encounter he says that for lack of capital some of their works had to pass over to mixed undertakings, in which private capitalists took part.

With regard to the political situation, as in Germany so in Austria the Social Democratic Party soon began to lose ground again after their initial success.

In the spring of 1920 the Coalition Ministry, in which they held the whip hand, broke asunder, and, since no other party could or would form an alternative Ministry, the old device of a composite government, in which the three principal parties were represented in accordance with their relative strength, was provisionally resorted to until the election in the autumn should take place under the new formal Constitution, which the Constituent Assembly had been summoned to prepare. Under this composite arrangement the Social Democrats lost power, because the other two parties were free to make common cause on questions at issue. And when the General Election took place in the autumn of 1920 it was seen that the Social

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Democrats had lost ground also in the constituencies. In the voting they changed places with the Christian Socialists. They had polled 1,211,814 votes in 1919, against 1,068,382 for the Christian Socialists; in 1920 they dropped to 1,022,606, while the other party rose to 1,204,912. In members returned they fell from 69 to 66, while the Christian Socialists rose from 63 to 82, and the Nationalists from 24 to 26. In consequence of these results the Social Democrats withdrew from all participation in the Government and refused subsequent invitations to join. Their chance had gone, and that by the popular verdict under a new and extremely democratic Constitution.

It is instructive to notice how often this has happened, and the very system which Socialists have demanded and confidently relied on to increase their power has turned to their disadvantage. Dr Bauer attributes this phenomenon in the case of Austria to the revival of prosperity, which had set in and relaxed the revolutionary tension by providing regular employment and a more adequate standard of living. He is very likely right, but if so it opens up a rather hopeless prospect for Socialism. The more it succeeds in improving conditions the more it fails through declining revolutionary ardour. And if on the other hand it does not improve conditions, it loses favour through disappointment. This is the eternal dilemma that has always confronted Marxian Socialism and split it in two. The safest position for Socialist parties to take is a perpetual opposition, in which they can abuse every other party and every Government to their hearts' content without any risk of being brought to book by having to try their own hand. A subconscious realization of this seems at the bottom of so many refusals to share responsibility. But it is a negative, sterile policy, which cannot continue indefinitely but must tend either downwards to a dwindling influence or upwards to the responsibility of office. They look forward to the latter, of course; but the chances are not good in Austria, where more than half the population is rural and the ownership of land is overwhelmingly in the hands of peasant proprietors, who have no use at all for the teaching of Marx, the dictatorship of the proletariat, and all that sort of thing. Besides, the revolutionary fervour has

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subsided even in the towns, and with the rising improvement of conditions it is unlikely to revive, except in the form of some local and momentary outburst, such as that provoked in Vienna by the Nationalists in 1925. Communism is a negligible quantity; even the invincible optimism of Moscow does not expect much from Austria.

An account has been given above of the attempts to convert and carry on the State war factories on some sort of Socialist basis—a praiseworthy effort, and useful at the time, but without staying power, at least in their original form. There are, however, other State undertakings of older date and not of Socialist origin. The most important of these are the railways. They had accumulated a heavy deficit when run by the State and had to be taken seriously in hand when the Government undertook to wipe out this loss under the agreements entered into at Geneva in 1922. The first step was the inevitable “commercialization,” which took place as soon as the legal powers had been obtained in October 1923, when the railways were placed under the control of a new company created for the purpose, and called “Austrian League Railways,” which was to administer them for the State. The aim was to make them self-supporting and eventually profitable, and drastic reforms were carried out to that end by complete reorganization, centralization, and cutting down of expenses in all departments. The number of departments and offices connected with the management was gradually reduced from 250 to 140, and the total staff from 135,497 to 98,789. At the same time improvements were effected in the stations, the train services and in the permanent way; freights and passenger rates were recast; the workshops reorganized and extensive schemes of electrification with water-power were carried on. The result of these reforms was a gradual reduction of the annual deficit, and the estimates for 1925 showed a small surplus of receipts over expenditure, according to the report made in September 1925 to the Council of the League of Nations by the Commissioners appointed for the purpose.

The State tobacco monopoly, which dates from 1784, has remained under a Government Department; but the Dorotheum

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Institute has been commercialized under a special statute. This interesting establishment, which dates from 1707, when it was founded as a *mont-de-piété*, has developed into a very important institution. To the original pawnbroking business it has added auction sales, safe deposits and savings banks. Numerous local branches have been added to the parent centre in Vienna. At the end of April 1925 the deposits amounted approximately to £2,000,000. There is nothing of Socialism in all these undertakings, and such change as has taken place in them is rather in the opposite direction, as in other cases previously described. Austria is by no means yet out of the economic wood—very few countries are—but she is getting on very creditably in view of the extreme plight to which she was reduced by the war and the revolution, followed by inflation and severe spells of unemployment, of which the latest began in the summer of 1925, when a rise similar to that experienced here took place there too. The Vienna Fair was revived in 1921 by a combination of official and commercial agencies, and has been vigorously developed. Two fairs are held annually, one in the spring and one in the autumn, and each lasts eight days. The first one, held in the autumn of 1921, was strikingly successful, and the institution has since developed into the most important international market for mid-European trade. Goods of every kind are bought and sold, and contracts made. In 1924 fifteen foreign countries exhibited, and were represented by 723 firms; buyers came from all parts of the world. Germany has naturally taken a leading part among the foreign countries, but Great Britain has also been well represented.

I have given the Socialists full credit for the part they played in the initial period of chaos that followed the revolution and for an earnest attempt to carry out socialization. They also did much to introduce many social reforms—but that belongs to another part of the subject, to which I shall refer later. The economic recovery of recent years, which is still going on, is not their doing. It has proceeded on ordinary business lines, through ordinary business agencies, and it has been accompanied by rising wages. The course of affairs and the set-back sustained by the Socialists are the more remarkable because



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Dr Bauer claims that through their influence the Constitution was so framed that the working classes were rather more strongly represented in the League Council formed under it than in the more popular and directly elected National Council. The one exception to the failure of the Socialists is Vienna, and it is a most interesting exception, deserving of particular notice.

*The Socialist City-State of Vienna.*—In 1921 Vienna was made an independent self-governing province, on the same footing as the other component provinces of the League which make up the Austrian Republic. It had previously been included in Lower Austria, and had only the constitutional standing and administration of a city. The change of status meant a good deal to the Social Democratic Party. Vienna is a far more important unit of the small existing Republic than it was of the large former Empire, because its relative size is much greater. It is not only the capital and the centre of intellectual life, of trade, transport and finance, but it also contains nearly three-tenths of the total population, and its 1,800,000 inhabitants are largely industrial. This accounts for the fact that it has a Socialist Government, and as such is able, by reason of its great importance, to maintain a certain balance against the other provinces, which are all on the other side, in the perpetual conflict of interests between town and country, urban workmen and peasants.

The Social Democratic Party was numerically strong in Vienna before the war. In 1911 it claimed nearly 43 per cent. of the votes cast there in the General Election for the Austrian Reichsrat; but on account of the constitution of the City Council it had only 8 members out of 165 on that body, and they took no part in administration. After the revolution the 8 became 100, or five-eighths of the whole; and that proportion had increased to nearly two-thirds in 1925—namely, to 78 out of 120. They have therefore had complete control the whole time, and they appear to have done remarkably well, though the circumstances just explained prevented them from having any previous experience. They began by reconstructing the constitution on a democratic basis. The city was divided

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into districts and the total number of councillors was distributed among them in proportion to the population. Within each district proportional representation holds good, with universal suffrage at the age of twenty. The City Council elects the Burgomaster and the Senate, which is a Second Chamber consisting of twelve members, who must not be members of the Council. There are eight standing administrative committees, which have charge of public affairs, with the exception of education, for which there is a special council, as provided by the constitution of the Austrian Republic. The City Council is the supreme authority, but all questions that come before it are previously discussed by the committees and the Senate, which has also an independent voice in regard to finance. At the head of each committee is an official chairman, elected from the members of the Senate by the City Council and appointed for five years. Since the Senate is elected under proportional representation the minority is represented on it, but official chairmen of committees are all members of the majority. It is claimed that under this system the actual government of the town, which is carried on by the Burgomaster and the official chairmen, is a pure social democracy. It is a kind of ministerial system in which the Burgomaster is the Chancellor and the others form the Cabinet—all elected. The Burgomaster, though responsible, as an administrative officer, to the Council, wields considerable power; he may be elected chairman of the Council, and in cases of urgency can act independently on his own responsibility. In addition he is also head of the provincial government—that is, the government of Vienna as a State, not a municipality. The affairs of each are kept separate.

How does this rather complicated system work? Everyone I asked replied that the administration is efficient and straight, though extravagant. Its efficiency appears to be due largely to the ability of Herr Hugo Breitner, who looks after the finances and is a great hand at gathering taxes; he lets no one escape his net. The town, public buildings, parks, and so on, are well kept. I agree with that verdict so far as my observation goes, but I happened to witness a breakdown of municipal efficiency. There had been a heavy fall of snow and no attempt whatever

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was made to deal with it. Streets, pavements and open spaces were everywhere covered with a thick layer of snow, trodden down, caked and frozen. The sight of the horses dragging heavy loads—for motor-lorries are not yet numerous on the Continent—drew my attention particularly to the fact and made me angry. Vienna is not a hilly town; most of it is flat, but there are some moderate declivities, and those poor horses were slipping at every step and falling down as they loyally strained at their task. It was a cruel sight. In Munich I found that the same fall of snow had been promptly dealt with and all cleared away. Yet there are plenty of unemployed in Vienna.

That was a small matter, and I mention it more in the hope of drawing attention to the horses than to throw any doubt on the reputation of the Socialist administration of Vienna for general efficiency. On the contrary I believe it to be well deserved. But how much Socialism or what sort of Socialism there is in it is another question. There is certainly no Marxian Socialism; that is thrown clean overboard. Nor is it mere sentimental Socialism; it is too practical and systematic for that. Nor, again, is it municipal Socialism as ordinarily understood. I should rather call it advanced social reform on business lines. The chief aim is to raise the status of the poorer classes by the more even distribution of burdens and benefits, and the great means is an elaborate system of taxation adjusted according to ability to pay. There is nothing new in the principle, but its application in detail is remarkably thorough.

Formerly the municipal income was derived in the usual way mainly from rates assessed on rent, which amounted to three-fourths of the total. Then there were taxes on food and alcohol and the profits on municipal services of the usual kind—gas, trams, electricity and water-supply. In the period of currency inflation rent lost all value and eventually this taxation was given up. So too the food taxes; and since the municipal services are so run as to cover their cost but to yield no surplus, an entirely new system of taxation became necessary. A socially important feature is the taxation of luxuries. It is imposed

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directly on certain things and indirectly on certain others, by grading the rate of assessment according to value.

The direct luxury taxes are levied on entertainments, food and drink in restaurants and hotels, motor-vehicles, domestic servants, horses and dogs. Then there is a "welfare tax" of  $4\frac{1}{2}$  per cent. (banks  $8\frac{1}{2}$  per cent.) on all wages paid in business concerns; it is paid monthly by the employer and must not be passed on to the employed. Whether the business makes any profit or not makes no difference in the assessment. It is called a welfare tax, but has nothing to do with any welfare purpose; it is a general tax and it goes into a general treasury. In addition to this, there is a whole series of taxes affecting particular businesses. Such are licensed businesses, which include printing and book-selling; apartment-letting; posters; advertising in newspapers or books; auctions; certain official transactions with municipal departments; the use of gas and electricity (gas  $1\frac{1}{2}$  per cent. and electric current 4 per cent. on the bill). This last tax is rather interesting as an example of the way in which rules adopted on some ideal principle may be evaded. As already mentioned, the municipal services are so run as to cover the cost and no more. But the municipality wanted capital to develop water-power; so it put those taxes on gas and electricity. They are really an addition to the price, bringing in a profit. The arrangement is for a specific purpose and is to come to an end in 1932; but it is just possible that the municipality will still want capital then.

To continue the list of taxes, we come to the land tax, levied on all vacant pieces of ground. It is an old tax and not peculiar to Vienna, where it is said to be lower than in any other part of Austria. A new land-value tax, levied on all landed property, whether built on or not, was imposed in the first years of the Socialist administration, but was found to be impracticable and given up, because the effect of the tenant-protection laws was such that real property brought in nothing. On the other hand, considerable importance is attached to the increment-value tax, which is levied on conveyancing transactions with certain exceptions. The mode of assessment takes all the circumstances into account and looks extremely intricate.



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The tax is retrospective and graded accordingly—10 per cent. of the increased value on conveyances effected before 1920, then rising 10 per cent. annually for 1920, 1921 and 1922, after which it is 60 per cent. The estimated yield for 1925 was very small, but the tax is regarded as promoting the municipal building policy.

Lastly there is the housing tax, levied on the tenants of all lettable rooms in the city. The landlord collects it monthly from the tenants and receives 10 per cent. of the amount. The system is extremely complicated and I confess I have failed to understand it, but I gather that it is a relic of the currency-inflation period, when rent practically disappeared. It is one of the graded taxes, so arranged as to be very low for working-class dwellings and rising with the quality, gradually at first, but much more sharply at the luxury end of the scale, both for dwellings and business premises, but particularly the former. It is called the housing tax because the proceeds are applied exclusively to municipal housing purposes.

This differential system of taxation excites, of course, the lively opposition of those on whom its weight falls most heavily, but there is nothing new in that. Taxes that command the enthusiastic approval of those who pay them have yet to be discovered. But greater objection would probably be raised in England against the drastic methods of ensuring payment, which include the compulsory inspection of accounts. Delay is effectively discouraged by a sibylline system of adding 25 per cent. to the arrears. All this, however, might very well be adopted by any administration faced by a financial situation like that in which the Vienna Government found itself; there is energy and ingenuity in it, but no Socialism in the proper sense of the word.

Nor is there any in the public business undertakings. The Administration does not attack Capitalism, but makes use of it by investing in private undertakings, possibly with a view to eventual control, but actually for the sake of revenue. The strictly municipal enterprises, such as the gas-works, have been very successfully developed, but are completely separated from the Central Administration, and even such services as sewerage,

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water-supply, baths and cemeteries have a large measure of independence. A municipal bakery was tried, but failed.

The welfare institutions are not remarkable except that there are 2000 beds for tubercular cases in the town and some hundreds in the Alps or at the seaside. A curious and very modern institution is a medical clinic for advice about matrimony; it is much patronized. The educational system, to which great attention is paid, is also very modern and extremely interesting. The aim is to develop the faculties of the children by observing and doing things, not by book lessons, which have been given up for manual training, drawing and modelling, object lessons and class readings from literature graded up from fairy-tales to the classics. Slow-learning children are relegated to special small classes under particularly competent teachers. The provisions for the care of health are not exceptional, but a system of enlisting the interest of parents in school work is new to me. Regular parents' meetings are held for every school, at which educational questions are discussed and parents have their say about reforms. Continuation and trade schools are well developed, but not more than elsewhere. A psychological institute for investigating the minds of children is too suggestive of Freud and psychoanalysis to be commended without detailed information. In connexion with education and Socialism it may be mentioned that a residential Labour College was started in January 1926. It has accommodation for 32 students for a six months' course—but this is a trade-union, not a municipal, venture.

One of the troubles left by the war, and only too familiar to us, is a greatly increased deficiency of housing in all large centres of population. The problem is nowhere greater, outside of Russia, than in Vienna, which has always been a very congested town with a great deal of overcrowding. The exceptionally stringent laws for the protection of tenants, together with currency inflation, had the effect not only of stopping all private building but also of discouraging necessary repairs to existing houses, so that the need grew more and more urgent. The municipal authorities were compelled to take it vigorously in hand, and entered on an active campaign for raising money for

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building by means of the building tax already mentioned, since a loan was not to be had. In 1924 a five-year programme for building 25,000 dwellings was begun, and has since been carried on. They are tenement dwellings, varying in size from a single room to two bedrooms, sitting-room and kitchen, with entrance lobby, and are let at uneconomic rents, far below the pre-war rates for similar but inferior accommodation. The building is done by private builders on contract, but the municipality provides the materials. Another development of a less ordinary character is the conversion of allotments and market gardens, established during the war to provide food, into settlements. By the end of 1924 the number of houses built was 1258, and in 1925 this number was doubled. The ground belongs for the most part to the municipality, which advances 60 per cent. of the cost of building, the settlers finding the rest through their co-operative societies.

The financing of all the municipal activities, of which only the chief items have been mentioned, is a formidable business, but it appears to have been successfully managed so far. The staff employed is very large, numbering from 50,000 to 60,000 in all; but economy is carefully studied and efficiency maintained by a system of internal discipline. The entire administration is marked by characteristically German thoroughness and method, combined with an ingenuity and resource not always to be found associated with those qualities.

Evidence that the status of the poorer classes has been improved in Vienna under the present administration is furnished by some statistics compiled by the International Labour Office and published in 1925.<sup>1</sup> They are hedged about with various reservations on account of the defective data and the complicated character of the calculations required to arrive at them; but when all allowances have been made, the tale they tell is too broad to admit of any doubt that the wage-earners' standard of living has been raised in recent years. The following Table of index numbers, stated as percentages of the 1913 level, is compiled from them:

<sup>1</sup> *The Workers' Standard of Life in Countries with Depreciated Currency*, pp. 85-89.

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INDEX NUMBERS OF AVERAGE REAL WAGES—1913=100

	1921	1922	1923	1924
<i>Skilled Workers—</i>				
Bricklayers . . .	83	103	110	123
Carpenters . . .	78	99	107	119
Wood-workers . . .	82	72	89	98
Metal-workers . . .	64	74	81	100
Lace-makers . . .	76	83	91	97
Weavers . . .	...	...	75	75
Printers . . .	57	72	76	91
Bookbinders . . .	78	90	98	114
Men's Tailors . . .	73	77	93	114
Women's Tailors . . .	75	64	81	99
Chemicals . . .	...	81	81	83
Average of above	73	81	89	101
<i>Unskilled Workers—</i>				
Building . . .	101	114	121	135
Wood . . .	62	71	92	110
Metals . . .	78	92	101	114
Clothing . . .	...	84	100	120
Chemicals . . .	...	133	135	138
Average of above	80	99	110	123

The striking fact is the marked advance in the position of unskilled as compared with skilled workers. The latter are in some cases—notably the building trades—considerably better off than before the war, and in other cases back at that level or near it ; but the unskilled workers have done appreciably better in all cases. This phenomenon is not confined to Vienna, but seems to be general. It cannot therefore be attributed to any particular Administration. But it has occurred in peculiarly difficult circumstances in Vienna and has been accompanied by a general revival. The burdens imposed by the social reform policy are undeniably heavy, and they may become too heavy



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for economic stability ; but so far that does not appear to have happened.

I have given these details about the Austrian capital because of its peculiar character as a great self-governing community, which has been for years under the complete control of a strong Socialist administration ; and I have given full credit where it seemed due. But let no one suppose that Vienna has become a workmen's paradise. In October 1925 the level of real wages was only 46 per cent. of the London standard, if food alone is taken into account, and 52 per cent. when rent is added.<sup>1</sup> The figures are subject to reservations on account of various difficulties in making the calculations, but the comparison is broadly valid. The corresponding figures for Berlin were 69 and 67 per cent.

I feel that a word of general caution is due to the reader, in conclusion. The foregoing account of Austria, and of Vienna in particular, may give too favourable an impression of economic conditions. The burdens on industry for social insurance, unemployment pay, etc., have increased at a prodigious rate, and much misgiving is entertained about the eventual effect.

<sup>1</sup> *International Labour Review*, January 1926, p. 117.

## CHAPTER V

### SWEDEN

IN Sweden one enters a totally different atmosphere. Here is a neutral country, where there has been no great upheaval, no revolution, as in Russia, Germany and Austria, but where Socialism, as a political measure, has nevertheless come to the top since the war by a purely constitutional process. It has come about without even so much disturbance as took place in the stormy years of 1902 and 1909. There is, of course, a historical background. The movement had been advancing rapidly for a good many years before the war, so rapidly that in 1914 the Social Democrats had already become the largest party in the Lower Chamber of the Riksdag, being just in front of the Conservatives, literally, by a head; and it is highly probable that their triumph would have come about in any case without the stimulus of the exciting events that occurred among their neighbours and stirred the whole world, whereas in the other countries dealt with in the previous chapters nothing was less likely. The conditions, therefore, are essentially different.

Sweden enjoys the distinction of having been the first country in Europe to install a Socialist Government by regular constitutional procedure. This happened in March 1920, when the late Mr Branting, who had led the Social Democratic Party since its foundation in 1887, became Prime Minister and formed his own wholly Socialist Cabinet. He had previously joined, with three colleagues, in a Liberal Ministry in 1917. Further, Sweden has had a much longer, though not an uninterrupted, experience of Socialist administration than any other European country. During the last six years the party was in office for three separate periods, of nine months (1920), eighteen months (1921-1923), and nineteen months (1924-1926)—or nearly four years in all; and it remained in office until June 1926, though Mr Branting resigned on account of illness in January 1925, and died a month later. His successor was Mr R. J. Sandler, a comparatively young man, who was Minister of Commerce in the Branting Government.

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This experience places Sweden in a unique position and makes a study of affairs there peculiarly interesting from the present point of view. What has happened in consequence of these developments? A foreign observer, noting the advance of Socialism, and having read of past general strikes, "Young Socialists," Russian influence, praise of violence, and so forth, might suppose, if of a Conservative turn of mind, that Sweden must be rather a terrible country, given to agitation, turbulence and dangerous experiments, and lacking stability. On the other hand, an observer of the opposite type, fired by an ardent desire for the millennium, and with a firm belief in the power of Socialism to inaugurate it, might well expect to find here, if anywhere, a decided advance towards the dawn. Both would find nothing corresponding to their respective fears and hopes. They would find the old order still intact in a delightful country in which every prospect of nature is more than usually pleasing and man less than usually vile.

The famous young lady—sung by Edward Lear—who came from Sweden, and on arriving at Weedon station went straight back again without a word, was a very sensible girl. I should have done the same in her place, for whatever the merits of Weedon may be, it lacks the attractions of Sweden; and to-day, judged by comparison with other less fortunate lands, this Scandinavian country wears a remarkably tranquil, orderly, prosperous and cheerful air. It has had its trials, and there are, no doubt, troubles, anxieties and friction below the surface, but they are small compared with other cases, and the net outcome is the enviable condition I have stated. How far it may be attributed to the Socialist Government I do not know; but it is not due to any instalment of Socialism in practice, for there has been none. There have been other changes of a minor character, though not unimportant; but no inroad upon the old economic order has been even attempted, and the owners of capital still sleep calmly in their beds. It may be said that the Socialists do not command a majority in the Riksdag and cannot do what they please. That is true, but there are other obstacles of a less manageable nature. In view of the policy pursued by the Socialists in office, and the proceedings in other

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countries already related, it is highly improbable that the Government would or could have done more even if they commanded a majority. What Mr Branting did when he took office in 1920 was to follow the example of Germany and Austria and appoint a Commission of Inquiry into Socialization, which has been sitting and reporting ever since. But before entering into that it is necessary, in order to make the position clear, to state more precisely the events leading up to it in recent years and the varying fortunes of the Social Democratic Party.

The Riksdag consists of two chambers having equal authority but differing in size and elected in a different manner. The Second Chamber is the larger, having 230 members, and the more democratic, being elected by universal suffrage of all men and women (since 1921) who have reached the age of twenty-four. It is therefore the more important of the two. The First Chamber has 150 members, indirectly elected by the county councils and the town councils of the five chief towns. In the case of disagreement on financial questions the two hold a joint session. Thus the First Chamber is not negligible, and a Government must be strongly represented in it as well as in the Second Chamber. That is the case with the Social Democrats, who are the largest party in both chambers, though their preponderance is much greater in the Second than in the First. The following official Table gives the membership of all the parties at successive elections since the war. Previously, in 1914, there were only three parties—namely, in order of membership, Social Democrats, 87; Conservatives, 86; Liberals, 57.

	1917	1920	1921	1924
Social Democrats .	86	75	93	104
Liberals . . .	62	48	41	4
Conservatives . .	59	71	62	65
Agricultural Union .	12	29	21	23
Left Socialists . .	11	5	6	...
People's Party . .	...	...	...	29
Communists . .	...	2	7	5



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*A Dominating Position.*—The dominating position obtained by the Social Democrats, after a set-back in 1920, which turned out Mr Branting's first Administration, is plain. They have not suffered much from the secession of the more extreme section, who called themselves Left Socialists, and split off in 1917, but in 1924 were replaced by the Communists. The Liberals have been almost wiped out, largely through a split on the question of Prohibition. The People's Party, who made their appearance in 1924, were the Prohibitionists in the Liberal Party. The steadiest party are the Conservatives and next to them the Agriculturals, who were once the strongest of all, but split many years ago over the question of Free Trade and Protection. Splitting is an amusement which few political parties, if any, seem able to resist. In Sweden even the Communists have had a split, through the action of a workman who was a member and went to Russia, where he was so completely disenchanted by his experience as a workman that he came back and headed a revolt. To complete this brief account, it should be added that the Social Democrats are also the strongest party in the First Chamber, with 52 seats against 44 held by the Conservatives, 22 by the People's Party, 18 by the Agriculturals, and 13 by the Liberals, together with 1 Communist.

On 1st June 1926 the Government was defeated in both chambers of the Riksdag on a question of unemployment pay, and resigned.

The rise of the Social Democrats, who in 1903 had only four members in the Riksdag, is due to several causes, of which the following may be mentioned: a strong trade union movement, which preceded the political; active propaganda, particularly by newspapers, which are more generally read in Scandinavia than even in Germany; the failure of strikes; the widening of the franchise, which was greatly extended in 1909 and again in 1921; unemployment since the war; the wise moderation of Mr Branting's policy. With regard to the last item, when he took office, in 1920, "nationalization" was still a word of fear and a good deal of apprehension was felt; hence the set-back at the General Election in 1920 and the increased strength of the Conservative and Agricultural parties. But the

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cautious approach to "Socialization" by way of inquiry, in keeping with the sober national character, allayed alarm and put the whole question in a different light. This brings me to the Commission of Inquiry and its outcome.

In 1920 Mr Branting appointed two commissions, one to inquire into industrial democracy, the other into socialization. The former has issued reports, but I can here deal only with the latter. Unlike the German and Austrian commissions, which have long ceased to function, the Swedish one has been at work ever since, and has produced a large number of reports, at a very considerable expense, said to be 100,000 kronen (about £5000) a year. I have not seen them all, but I am told that fourteen have been issued. Those I have seen are substantial volumes of 400 and 500 pages, admirably printed. The whole forms a small library, containing a comprehensive survey, by competent hands, of social and industrial movements, not only in Sweden but in other countries. The first volume deals with England from 1760 to 1920. It is a matter of surprise to me that so little notice has been taken of these works. I expected to find in Germany at least some translations or critical studies of them, but I could hear of nothing, even in the publishing office of *Vorwärts*. Nobody seemed to be aware of their existence. Yet this is the question of the day, and here is an elaborate and dispassionate inquiry into it, conducted by technically qualified investigators, including representatives of employers' and workmen's associations, as well as economists and men of all shades of political opinion. I can only conclude either that the Germans, and particularly the Social Democrats, are thoroughly sick of the whole subject, though individuals still pour out controversial essays on the theory of socialization, or that the results of the Swedish inquiry are not to their taste.

The countries first dealt with, in addition to England, were Denmark and Austria; but similar reports on the United States, Germany, Australia and New Zealand have been issued or prepared. Then there are separate reports on the socialization of particular industries, beginning with railways. An account of this one by Mr Erik Linder, one of the secretaries

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of the Commission, was published by the International Labour Office in January 1925.<sup>1</sup> It is in some respects the most important of the subjects dealt with, because it has come nearest to a practical outcome. The Commission made definite proposals for the reconstruction of the Swedish State Railways.

This is very remarkable. The main lines in Sweden were constructed by the State, and are owned and operated by it; but it is quite a mistake to suppose that all the railways are in that position. On the contrary, the privately owned lines exceed the State lines in mileage. The total length of the latter is 5836 kilometres, as against 9487 km. of privately owned lines. If we exclude from the latter figure the small narrow-gauge lines there are still 5969 km. of broad-gauge, privately owned lines, or more than the whole State system. Now one would expect that socialization of the railways would mean absorption of the private lines into the State system. But nothing of the sort. The recommendations of the Commission are for the reconstruction of the State lines in the direction of commercialization by taking the management out of the hands of the Government and placing it under an independent authority in the shape of a statutory body consisting of a chairman and 28 members, of whom 8 would be appointed by the Government, 8 by the Riksdag, 6 by the railway personnel, and 6 by organizations interested in transport and representing consumers. The general meeting would appoint an executive or managing board, which would administer the railways. This form of organization is becoming familiar. Its main object is to secure greater economy and efficiency than under direct State control, but without the incentive of profit and with the aim of serving the common good. It is a half-way organization between public and private enterprise, and when applied to existing private concerns it might be regarded as a step in socialization; but, conversely, when applied to State concerns it is rather a step back towards the methods of private enterprise. I will quote Mr Linder's explanation of the principle:

"It has long been clear that a modern State undertaking,

<sup>1</sup> *Industrial and Labour Information*, vol. xiii., Nos. 1 and 2.

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having an economic object, is of an entirely different nature from State administration properly so called. The Swedish Socialization Commission, in preparing recently a proposal for the reorganization of the State railways, took this into account and assumed as a fundamental condition for a rational business undertaking that the State administrative machinery should be supplemented by forms of organization appropriate to the undertaking in question.

"The State undertaking should, therefore, according to the proposal of the Commission, be detached from the general State administration and be placed under a separate administration. Only in this way is it possible to get rid of the mingling of political and economic considerations, which must have a crippling effect upon a business undertaking, and to relieve the Government authorities from a multitude of details which should properly be assigned to the railway management.

"The Socialization Commission describes the new organization which it proposes as an independent public undertaking exclusively owned by the State, the administration of which is in its main principles determined by the Government authorities and subject to their supervision, but the management and conduct of which is entirely independent of the political organization of the State."

Other points of interest are these :

The State railway undertaking should "arrange its system of charges so as fully to cover its costs, but refrain from seeking to earn profits." Nevertheless, as regards returns on capital, "it is important that a State undertaking should, equally with private undertakings, normally contribute to the maintenance and increase of capital in the country. The State railway undertaking must therefore yield a surplus over and above its immediate costs. . . . This surplus must at least correspond to the 'normal interest on capital,' together with such a percentage for risk as may be necessary. . . . All that is necessary is that the undertaking should pay the market price for its capital *plus* a risk premium of 1 per cent. on its primary capital."

It is explained that "primary capital" is that which corresponds to the share capital of a private undertaking;



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"secondary capital" is that required for the unremunerative use of the railways by the Government—for instance, for military purposes—and debenture capital bearing a fixed rate of interest, which is to be regarded as an expense. Considerable importance is attached to this division of capital for determining the income the railways are called upon to yield; and effective safeguards against abuse by the transference of primary capital to the secondary class are to be secured. "Bad management must not be disguised by transferring primary to secondary capital, but must be remedied by a change in the management." One can see in these provisions the hand of the competent economists who have taken part in the proceedings of the Commission.

Proposed changes in regard to wages and the relations between the management and the railwaymen reveal a similar regard for business principles. "The Commission emphatically maintains that a business-like administration of a State railway undertaking will be completely impeded if the wages of the railwaymen are determined by the Government authorities from considerations of State finance or social policy. The market value of labour should, on the contrary, form the basis of calculation, and labour conditions should, as in the case of private undertakings, be determined by agreement between the management and the workers' organizations. The terms of engagement hitherto in force for 'permanent employees' do not appear to be consistent with such a system. The Commission proposes, therefore, that they should be abolished. By way of compensation the employees will obtain the right to strike, legislation guaranteeing a method of negotiating agreements and representation on the supreme administrative authority of the undertaking. This will apply also to the highest officials."

In these proposals, then, we see once more the present tendency to condemn State management and reintroduce into publicly owned concerns the business methods proper to private ones, even where profit-making is not the main object. The Report was received on the whole with approval, but not without much criticism, particularly on the proposed change in the position of railwaymen, to which objections were raised from opposite points of view. The recommendations have not

yet been carried out. For my own part, speaking as a passenger, I have found travelling on the Swedish State Railways remarkably comfortable, though not very fast; but of their efficiency in other respects I have no knowledge.

The proposed reorganization of the State railways on these lines, coupled with a general recognition of the defects of State management, in which the Swedish Socialists concur with the conclusions reached elsewhere, and previously quoted, is the more striking in the case of Sweden because the State owns, in addition to the railways, other large revenue-producing properties and enterprises, which do, as a matter of fact, bring in a large revenue. In 1923 the capital invested in State undertakings was 2,129,000,000 kronen (the krone equals about 1s. 1½d.), and they yielded a profit of 5·11 per cent. They include large holdings in forests and sawmills, iron mines and works, water-power and hydro-electric plants—which are the three great economic assets of Sweden. There is very little coal and in agriculture the country is not self-supporting. Of the forest area the State owns 38 per cent., and this is one of the subjects already examined by the Commission, which has preferred to consider what should be done with public undertakings before going on to consider private ones, which is a more difficult matter but the heart of the practical problem of socialization. Presumably the Commission will go on to it in due course. But in the meantime the views of the Social Democratic Party have been expounded both by the late Mr Branting and by Mr Sandler at a summer school in August 1925. As particularly mature and carefully thought-out expositions of modern ideas held by responsible Socialists, they deserve the attention of all serious students. I will therefore summarize here the principal points in these discourses, but for the purpose of more detailed study I give (by permission) Mr Sandler's lecture in full as an Appendix.

Mr Branting's chief points are these:

“A fundamental failure in the present capitalistic social organization is that the production which supports society as a whole is withdrawn from the control of the general public to such a large extent.

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"The different types of enterprise, however important to the common life, are absolutely controlled by their owners, irrespective of their qualifications or their regard for the interest of the community, the consumers and the personnel employed.

"Hence no satisfactory guarantee either for the most rational direction of production or for the best social and economic use of the profits.

"Free competition, once commended by economists, has in many cases degenerated into an unrestrained struggle, causing unnecessary work and thereby increasing the cost of commodities; in other cases it has ceased and left room for a monopolistic system contrary to the interests of society.

"The demand for a thorough-going economic reconstruction of society has been strengthened by the war, and there is a widespread desire to curtail the right of private owners to the free disposal of the natural resources and the means of production, in order to place the national wealth more directly at the service of the whole country. Hence the legislation to regulate trusts and pools, the laws or proposals for giving the workers the right of joint control over industrial undertakings (industrial democracy), and the measures for transferring natural resources, transport, industrial enterprises, etc., to social control or ownership.

"With regard to measures of socialization, the basic principle must be the sovereignty of community interests over private interests.

"The experience of expanded State and municipal undertakings in recent times shows that concern for the public good can motivate economic activity and that the interest of the business is better looked after than by private enterprise. Examples are railways, telephones, telegraphs, the post, State forests, water-power, electrical-power plants, municipal gas-works, electric light, trams.

"The technical and financial management of these enterprises has hitherto been for the most part in the hands of a Civil Service administration organized as bureaux. But there are other forms. The tobacco business is a joint stock company;

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so too the wine and spirit trade, in which the State owns a large part of the stock. Another example of combined State and private ownership is the Grängesberg Company, which works the great iron-ore deposits in Norrland and transports the ore abroad in a fleet of steamers totalling 159,000 tons. By the terms of the agreement the State has the right to buy out private shareholders' interests at specified times and under specified conditions.

"There are, therefore, different forms of organization for the transference of private enterprise to public ownership or control.

"The administration should be adapted to the particular conditions. Above all, the application of the official and rigid methods natural in other branches of government to spheres which require a more flexible and business-like organization, with greater freedom of action for the management, should be avoided.

"The aim should be to combine the advantages of free play for initiative with the assurance that the public interest is looked after, which appears to be incompatible with private profit-seeking.

"The problem is not to be solved by some scheme drawn up for all time. A schematic socialization of the whole productive process lies remote from the line of thought here developed and from the whole theory of future economic development held by the Swedish social democracy. Experience from other countries testifies sufficiently to the dangers of seeking to move violently the present productive system.

"Both the question of the spheres for which socialization is required and that of the form to be adopted should be put freely to the test of unrestricted investigation. A central point of view is that production must not fall. In capitalist production the impulse to increasing the product is found in the interest of private gain, and it would be blinding oneself to obvious facts to repudiate the significance of this stimulus to production. But a well-balanced combination of different forms of social and private production may be expected to give a much better result from the standpoint of society."



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It is not my purpose to comment on these views here, and I will only call attention to their close correspondence with those of other prominent Socialists already quoted.

Mr Sandler follows in Mr Branting's footsteps, and since his lecture is given in the Appendix I can refer readers to it for details; but two or three important conclusions are so clearly stated that I will give them here to complete the foregoing. The first is the rejection of State management. "Experience from State-driven undertakings has justified suspicion that the management of socialized undertakings will be slack, bureaucratic and uneconomic. Here Social Democracy must be on its guard and see to it that the undertakings obtain intelligent direction under guarantees against bureaucratic management." Such guarantees are to be found in avoiding the monopoly form and over-centralization, in leaving extensive scope for co-operation, providing a place for consumers in the administrative organ, and leaving the management sufficient freedom of action. "So State enterprise in its popular, common sense disappears; and in its stead appears the socialized self-management of productive enterprises under representation of different interests."

The second point is that though all natural resources, industrial undertakings, credit agencies and transportation are to be transferred to the ownership of society, they are not to be treated in the same way. There is to be no uniform and symmetrical system, no single type, but a variety of form suited to varying circumstances. "Large portions of the economic life are still economically unripe for socialization. Capitalism there is still the most important factor in the economic transformation; so it should complete its work under the supervision and control of society." This is applied particularly to factory production, as distinguished from natural resources, finance and transport. In that sphere, which is for us the most important, "the State monopoly may be a temptation to uneconomic action." So the starting of new—presumably private—undertakings within a socialized sphere should be permitted. "Socialization can and should proceed without disturbing economic freedom." In short, competition and

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private enterprise are not excluded. Further, reference is made to forms of transfer which come between private and social enterprise, to the concession system and half-and-half systems, and to private activity with profit restrictions.

Meantime Sweden is getting along quite comfortably under the old order, and there will be no wild economic adventures there. The people are far too calm and steady-going for anything of the sort. Nor is there any urgent reason for it. Sweden was unpleasantly affected by the war in the interruption of her commerce, and particularly of the food-supply, which brought famine in sight. But her products of timber and iron were in great demand then and afterwards. There have since been two bad periods, in 1920 and 1923, with much unemployment and many strikes. But the currency was never allowed to go down, and Sweden was the first country to restore the gold standard, which was done in March 1924, with excellent results. A marked economic recovery took place that year, and, though the general depression of last winter has been felt, the position of Sweden to-day is enviably superior to that of most other countries.

What has really occupied the Socialist Administration is social reform, as elsewhere. The principal questions in the Riksdag in the session of 1926 were the reduction of the army, the eight-hours day and unemployment pay; and all that one can say is that the position of the Social Democratic Party on these and similar questions is a little more advanced than that of the Liberals. Not having an absolute majority, and being therefore dependent on the Liberals, they have not, of course, been free to do what they pleased. But it is abundantly clear from the inquiry into socialization and from the opinions given above that if they had been free they would have done nothing rash, but have proceeded in a very cautious and tentative manner. This is also evident from the moderate policy of the party in municipal affairs, where they have control, as in Stockholm, Gothenburg, Gävle and some other towns.

The mention of municipal affairs reminds me of a very agreeable experience I had in that connexion, and since it redounds to the credit of municipal enterprise it may be set

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against something I shall have to say on the other side later on. On the way to Stockholm I broke the journey in order to avoid travelling all night, which is not only fatiguing but prevents one from seeing the country. I picked out a place on the line to stay the night. It was a pure chance. I knew nothing about it and might have found no hotel at all, as it is quite a small town. However, I had luck. There was a hotel, and a very good one. The hotels in Sweden, I may say, are generally very good ; but in so small a place it was hardly to be expected. I found that it was the town hotel, an institution that is, I believe, not uncommon in Sweden. It was the town hall and a hotel in one, and quite a fine building. A town dance was going on when I arrived, but I had no difficulty in getting a good supper and a comfortable bedroom. Opposite my window was a well-grown young fir-tree about thirty feet high, standing in a wide open space. It had been snowing for hours and the branches, which grow very full and even in Sweden, were thickly coated with snow. The whole tree had been fitted up from top to bottom with electric lights—an immense Christmas tree glittering through the snow-flakes and over the expanse of fresh-fallen snow ; I never saw a prettier sight, or such an exquisite combination of man's and nature's handiwork.

## CHAPTER VI

### CZECHO-SLOVAKIA

A PARTICULAR interest attaches to Czecho-Slovakia as one of the new republics formed in consequence of the war, not by the conversion of a former monarchy or empire, but *de novo*, by a fresh geographical and racial division. A State so founded, on a democratic basis, through a popular uprising, seems to offer, in these days of advancing Socialism, a peculiarly favourable opportunity for practical experiments in that direction, because it is free to do as it pleases, unhampered by tradition; and an impression has in fact prevailed that Czecho-Slovakia is in some sort a Socialist state in the making.

How far that is justified will be seen from what follows.

The Czechs, who are a vigorous race imbued with a strong national feeling, have always been more or less restive under Teutonic domination since the destruction of the old independence of Bohemia, and leading spirits saw an opportunity of regaining it quite early in the war, not in the form of a kingdom but as a republic. The first Russian Revolution in 1917 stimulated their hopes and led to a declaration in favour of self-government, but still within the Austrian Empire. At the beginning of 1918 this developed into a demand for complete independence, which was realized on the 28th of October. It had been long preparing, and the new State was ready to take over its own administration under a National Council which had already been formed in the summer. Professor Masaryk, one of the most distinguished and respected of intellectual Socialists, was elected president, and has held that office ever since. The government was a Coalition, united on the national question, which cuts across ordinary political issues and makes the Parliamentary grouping extremely complicated. The principal parties are duplicated by the division into Czech and German, and there are also Hungarian, Slovak and other parties—some twenty in all. The alignment of parties is thus in practice determined by the national issue, not by the usual differences of policy, though these exist; and consequently a



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balance cannot be struck between Socialists and non-Socialists in the same way as elsewhere. The Government has always been formed by a coalition of two Czech parties, who have a majority in both chambers of the National Assembly, and include Socialists; but there are other non-Czech Socialists outside the Coalition, as well as Communists. Both chambers are elected by universal adult suffrage, male and female, but the age limit for voting differs, being 25 for the Chamber of Deputies and 35 for the Senate.

At the General Election in 1920 the Czech Coalition Parties held 164 seats in the Chamber of Deputies against 127 held by the rest, and 88 against 58 in the Senate. These Czech parties forming the Coalition are five in number. Arranged in order from Right to Left, according to their respective policies, they are: (1) National Democrats, 22; (2) Agrarians, 42; (3) National Socialists, 27; (4) Clericals, 21; (5) Social Democrats, 52. The figures give the numbers returned for each party in 1920. It will be noticed that the Socialists were the largest single party, but in a decided minority as against the rest, and that was their position also in the Senate. There was therefore no question of a distinct Socialist policy within the Coalition; and if they had joined hands with the German and Hungarian Socialists to form an Opposition they would still have been in a decided minority, and able to exercise less influence. In the last election, in 1925, they suffered a severe reverse, losing 23 out of their 52 seats in the Lower Chamber and 22 out of 36 in the Senate. The German Socialists also lost heavily, being reduced from 30 to 17 in the Chamber of Deputies and from 16 to 9 in the Senate. On the other hand, the Communists gained ground, but I will refer to them again later. The strongest and most stable party are the Agrarians, who also improved their position in 1925. It should be added that the Coalition now includes a sixth party, small but increasing, known as the Trades Party.

As a matter of fact, Socialism in the Republic is in a minority position, and a declining one. What the Czech Socialists did was to join the other national parties in consolidating and building up the new State, a task in which social reform played a very important part. They used their influence to fashion it,

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as Socialists have done elsewhere; but Socialism and social reform are two very different things, as I have said before. Probably the notion that this republic is a Socialist State arose from two measures which to some extent bear that appearance. These are Land Reform and the Capital Levy; but when they are examined the real object of both is seen to be the establishment of the new State on a firm basis. The aim of the former was to distribute the ownership and occupation of land more widely by creating yeomen farmers and small freeholders and tenants on land taken from the excessively large estates, which were numerous, particularly in Slovakia. The distribution of land was characterized by a comparatively small number of medium-sized estates as against a large number of very small ones and too many large ones. The question was by no means new; it had been raised for years and the conditions were well known. The excessive emigration from these countries was attributed to it, and this naturally became a matter of pressing concern to the new State, which wanted to be as strong as possible and saw in land reform an effective means of keeping the inhabitants at home and strengthening the State at the same time in population and in agricultural production.

No time was lost in beginning on it, for the first law was passed by the National Assembly on 9th November 1918—which shows how well prepared they were for the independence that had been formally achieved only a few weeks before. It was called the Expropriation Law, though it prohibited only the disposal or mortgaging of registered land without the consent of the State. It was an anticipatory measure, as the registration had not yet been made. Dr Edward Vondruska observes that “neither the owners nor the tenant farmers had ever been willing to surrender even the smallest portion of their land for the enlargement of the tiniest peasant farms; on the contrary, they had increased the size of their holdings by buying up or leasing as much land as they could obtain, whilst the ordinary farms had been constantly decreasing in size.” There was no voluntary movement for the breaking up of estates such as has been going on for years in Great Britain. The first preliminary law prevented evasion of subsequent measures. It was

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followed in April, 1919 by a second, which limited expropriation to estates exceeding 370 acres of agricultural land or 620 acres in all. Land below these limits was to be left to the owners as their own property, and in some cases 1250 acres were to be allowed. The working out of details with regard to mode of transfer, compensation and distribution was left over for the next National Assembly, but scheduling was taken in hand, and entrusted to a new department called the State Land Office, created for the purpose.

All this was preliminary. In 1920 a whole series of laws were passed dealing with different aspects of the practical problem. The total amount of land scheduled was about 10,000,000 acres, or 28.2 per cent. of the whole area, and of this some 6,000,000 acres were forest, leaving about 4,000,000 acres of arable land, meadows, grazing, gardens, vineyards, building land and water. The number of estates subject to expropriation was 1730, including some belonging to the Church and other corporate bodies. The land expropriated was to be apportioned to several categories of recipients. The most important class of beneficiaries were individuals—namely, small agriculturists, crofters, small tradesmen, agricultural and forestry workers, ex-soldiers, war invalids, and survivors of the fallen. Next came associations formed by the foregoing; then public utility societies and organizations—such as building societies; co-operative, agricultural and trading societies; municipalities; scientific and philanthropic bodies. The main principle with regard to individuals was that they should have enough land to be self-supporting, and from 15 to 25 acres of agricultural land, according to quality, was held to be sufficient for the purpose. Provision was made for credit and conditions were imposed to prevent the misuse or deterioration of land. Compensation to expropriated owners was to be calculated on the basis of the average price paid for land in 1913-1915 at open sales of land exceeding 250 acres in extent, with reductions according to size calculated on a fixed scale, and other special forms of valuation.

There were a great many other details in an extremely complicated business; but it is impossible to enter into them here,

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and perhaps enough has been said to show the general character and scope of this legislation. To get it all into order took time, and practical transfer did not begin until 1921. By the end of 1923 some 426,000 acres of agricultural land had been expropriated and allotted to 117,152 applicants, of whom 62,812 were agriculturists, 32,705 followed various occupations and 21,635 had previously had no land at all. Of these applicants 98·6 per cent. were individuals; corporate bodies represented only 1·4 per cent. Small farmers formed the largest class, with tradesmen and artisans second, farm labourers third (10 per cent.) and industrial workers fourth (8 per cent.). In addition, 280,000 acres had been appropriated to small allotments. The process is still going on, but these are the latest figures I have obtained. Land settlement, which is an acute question everywhere in Central Europe, was promoted by planting 593 families in twenty colonies. It was not found possible to parcel out the forest land among small owners, because a small section was not enough to live upon, and to cut up a wood was to spoil it. Nature has something to say in these matters.

A detailed account of the land laws and their execution was published in *The International Labour Review* for July and August 1925. I extract from these very instructive essays some passages dealing with the difficulties and social effects.

It will easily be seen that the important changes involved in the land reform legislation could hardly have been carried out without encountering some very considerable difficulties. The most immediate and striking difficulty—though it is not the ultimately most important difficulty, for it will by its very nature pass away—has undoubtedly been that connected with persons thrown out of employment by the break-up of estates.

It is obvious, that when a large estate is acquired and broken up, the position of those hitherto employed on it becomes critical. More particularly is this the case when such persons have acquired by long and expensive training at an agricultural college or institute a high degree of experience in management or other technical problems; with the break-up of large estates such persons find no market at all for their capacities. But even



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the manual workers are hard put to it. Certainly this has proved so in Czecho-Slovakia. . . . Nowhere have greater difficulties been felt than in regard to these classes of employed persons, whose livelihood seemed positively to be swept away from them by the reform.

Great efforts have been made to deal with the situation. The first great Land Reform Act of 1919, in laying down the principle of transfer, states that special provision shall be made later for persons thrown out of their employment owing to the transfer of estates. Since then a whole series of laws has been enacted, continuously amplifying and improving the provisions made for such persons. . . .

By the end of 1924 some 31,400 cases had been disposed of. Of these 10,150 persons (32·3 per cent.) have been placed in renewed employment, 1370 (4·4 per cent.) have been pensioned, 7135 (22·7 per cent.) have received an allocation in land, and 12,722 (40·6 per cent.) have received compensation in money. These figures show that well over one half of the persons affected have received an undoubtedly permanent provision, if we count an allocation of land as such. There remain, however, the 40·6 per cent. who have received a sum of money only, and whose absorption into the employment market will be a matter of anxiety, especially as the class of general workers who have received this form of indemnity is particularly large. . . .

Agriculture is an industry in which the amount of labour needs to be fitted to the amount of work to be done with unusual care and exactitude. A casual or inexact adaptation of labour force spells disaster. . . . Any sudden general change in an extensive agricultural system will bring quite extraordinary difficulties in regard to the re-adaptation to changed demands of an existing agricultural labour-supply. Now just such a sudden and extensive change has taken place all over eastern and central Europe; large-scale farming has suddenly been cut down to a minimum, and small-scale peasant proprietorship is to take its place. Such a vast change, if allowed to operate haphazard, will spell disaster. It requires to be mitigated and tempered, as it were, so that a properly established new organic

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structure may replace the old. The best new organic structure is the co-operative group of producers, a group which is perfectly adapted—and it is at present the only social grouping so adapted—to fit available labour force to existing tasks. . . .

The same remarks, in general, apply to the adaptation of the supply of capital. If agriculture is slow in developing or absorbing labour-supply, it is equally slow in accumulating or rejecting capital. . . . The transfer from large property to small is here again an enormous change, and one bringing crucial difficulties. The class of peasant proprietors are, in general, destitute of capital. . . . The position of the new small landowner is precarious, more precarious than that of his fellow-worker in industry.

He cannot work without capital; it is his absolutely needed pre-requisite; he cannot, after financial disaster, find a new employer, because he is his own employer. But he is peculiarly liable to lose his capital; a single bad season may drive him to extremities. . . . This exceptionally hazardous situation, involving elements of great cruelty, has engaged the attention of every recent writer on agrarian reform. It is here again that the Co-operative Movement can put forth a reasonable claim of superiority. . . .

These two weaknesses of agriculture—its hunger for capital and its cumbrous slowness in adjusting labour-supply to new enterprise—are powerful arguments in favour of any form of organization which will hold its own in spite of them. It remains to be seen whether co-operative grouping can eventually command the required strength and ability. . . .

The number of co-operative societies as yet at work is certainly not very great. . . . From 1922 to 1st May 1925 the formation of 97 societies in all is recorded. Of these 35 societies, comprising 568 members, are composed of groups of former workers on expropriated estates who cultivate their properties jointly; 11 work on the individual farming system; 6 are composed of ex-soldiers; 2 are combined with a consumers' society; 35 are for carrying on industrial undertakings (distilleries, milk and cheese factories, etc.); 4 are for building and settlement purposes; 4 are credit societies. . . .

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About 16 per cent. of all persons actively engaged in agriculture, or, roughly, 400,000 persons in all, have profited by the land reform. . . . The weight of the reform has been outstandingly in favour of the class formerly most completely deprived of land, having either no holdings at all or utterly inadequate holdings. Up to the end of April 1924 no less than 93 per cent. of all beneficiaries under the agrarian settlement had been of this class; only 7 per cent. had owned farms over 5 hectares in extent. . . . It is estimated that already one half of the largest *latifundia* have been broken up. . . .

The finance of the land reform has necessarily been complicated. All moneys are passed through a central compensation fund which was created by grants of 150,000,000 crowns during the first three years of its existence; these grants are repayable within ten years. . . . Credit arrangements are very extensive and generous. All credit transactions are now conducted through a special bank established in the autumn of 1923. Altogether State credit has been issued amounting, in round figures, to 80,000,000 crowns; while private banks have made themselves responsible for another 50,000,000. . . . The Land Reform Scheme has now got on to a self-supporting basis.

The immediate next step will be to add to the present reform by a process of restripping badly divided holdings. It is estimated that at present not more than 10 per cent. of holdings are at present properly or conveniently divided; the reallocation of scattered strips is absolutely necessary to proper cultivation. . . . Further questions are: the stability of the new holder's position, his education, his relation to his equals, to his subordinates (employees), if any, and to his markets, and the quantity of his output.

This land legislation was undeniably a drastic interference with private property; and its results are not yet by any means certain. But the multiplication of private owners—not only *de facto*, as in Russia, but also *de jure*—cannot be regarded as an advance towards Socialism, which demands the abolition of all private ownership in land. In a work published by the Social Democratic Party's Printing Press (*The Co-Operative Farm and*

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*Land Reform*), a Czech deputy, Mr F. Modráček, has pointed out that the co-operative farming movement in agriculture and the works councils in industry both indicate a significant moral victory over the old and barren theory of State Socialism or Nationalization, and this view is supported by Professor Máček.

The capital levy was another measure demanded by the special circumstances of the new republic, which required a large sum of money to settle its financial relations with Austria, liquidate other obligations, and have something to go on with. The law, which was passed in April 1920, is very comprehensive and exceedingly complicated, as might be supposed. It applied to all persons resident in the country for more than a year, with the exception of foreign diplomatic and consular agents, and to property owned abroad by Czecho-Slovakian citizens unless liable to a similar law, and all forms of property exceeding 10,000 crowns in value were brought under it, whether real or personal estate, whether gainful or not. Household effects, clothes and other personal necessities were exempted, with a few other things. The basis of valuation was the market price, and to assist in determining this elusive and variable quantity elaborate tables were constructed for calculating the value of different kinds of property. The result was disappointing, and little is heard now of the capital levy, though it is still being collected. The Government expected to get 10,000,000,000 crowns, but realized only about half that amount. The difficulties of assessment and collection were found to be much greater than had been anticipated. As President Masaryk said, the money seemed to disappear. Bankers managed to pay by manipulating the currency, but landowners could not; and indeed it is difficult to see how the levy could well avoid complications with the land legislation.

The numerous State undertakings in Czecho-Slovakia have gone the same way as those in the other countries already discussed. Last year the following were dissociated from State control and placed under independent administrations, to be managed on ordinary commercial principles: mines, forests, baths, printing, official newspapers, Press Bureau, tobacco monopoly, State Lottery, Mint, banking office, railroads, and



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Post. The railroads are nearly all owned by the State, which has been absorbing private ones, and this is the principal or only advance towards Socialism that I have been able to discover. On the other hand, the Coalition Government has promoted a policy of comprehensive and important social reform legislation, and it is in this field that the chief activity of the Socialist members has been usefully exercised, as I have already indicated. In particular, the Minister for Social Reform, Dr L. Winter, has gained a high reputation for his work, and appears to enjoy general esteem. Dr Joseph Gruber declares that "social policy forms the most characteristic feature of all the existing legislation of the Czecho-Slovak Republic"—and there can be no doubt that it does. The country has fully shared in the wave of social legislation that has passed over a great part of the Continent since the war, and its previous backward condition has made the task all the greater. New States taking it up have the advantage of the example of others, and particularly of England, before them; but they have also the disadvantage of long arrears to make up, entailing the introduction of a great many innovations all at once. The pace is apt to be too great, and Czecho-Slovakia has not escaped that danger. Dr Gruber admits that they solved certain problems in too drastic a manner and have had to make many subsequent changes in haste.

But they have done remarkably well, and have made steady progress in the economic position of the country during the last two years, after passing through the troubles of inflation, unsettled conditions, depression, unemployment, strikes, and all the rest. Unemployment reached its highest point at the beginning of 1923, when the official returns gave the total number of unemployed as 441,076, in a population of only 13,500,000; but after that it fell progressively down to 81,040 at the end of 1924. Last year there was further improvement. I can see no reason why the country should not become highly prosperous. It has great natural resources in agricultural land, forests, coal mines, iron, and many other minerals; it possesses an extensive series of highly developed industries and, above all, a vigorous and practical population.

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The only thing that might interfere with the peaceful development now going steadily on is an attack of Communism. It has always been strong, probably because the movement for breaking away from Austria drew inspiration from the Russian Revolution, and a section of the people interpreted it in terms of Bolshevism, though one might have expected the contrary from the part played in Russia by Czech regiments in the summer of 1918, when they rescued Siberia and a large portion of European Russia from Bolshevik rule. In 1919 Communism was strong enough to make an attack on some of the factories after the Russian fashion. Workmen took command and endeavoured to make the employers run the works under their orders. The attempt failed, as in Russia, and the workmen voluntarily abandoned it for the old order; but in 1920 the Czecho-Slovakian Communist Party was credited at Moscow with 360,000 members—an enormous number for so small a country. In the election that year they secured 27 seats in the Chamber of Deputies and 7 in the Senate, and last year these were raised to 41 and 20 respectively, evidently at the expense of the Socialists. This seems to show the usual drift towards the Left, but there is no reason to suppose that it is really formidable. Voting for Communist candidates is a way of expressing discontent arising from any cause.

At the Congress of Communist Trade Unions held in January 1926 the membership was stated to be 161,479 in 1924. Later figures were not given. On the other hand, the Federation of Czecho-Slovakian Trade Unions had at the same date 343,733 members, and the Federation of German Trade Unions 220,576, while the Nationalist Socialist Federation had 330,000. The Communist wing is therefore relatively small, and it appears to be mainly preoccupied with questions of social reform. The resolutions passed at the Congress included the following:

Collective agreements to be made binding; minimum wage in all branches of industry; labour courts; more power to be given to works councils; social insurance to include accidents and unemployment and to be extended to all classes of workers; unemployment funds to be administered independently by

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insured persons ; the Ghent voluntary system to be abolished and all relief to be provided by the State pending a new system ; insurance benefits to be raised ; increased holidays ; abolition of indirect taxation.<sup>1</sup>

In short, an advanced Radical programme.

I conclude with the following comments on the position of the country by Count Ledebur, a Czecho-Slovakian landowner :

"The democracy of the Eastern States does not generally bear much resemblance to the conception of it prevalent in Western countries. In Czecho-Slovakia the idea of democracy was influenced by socialistic as well as by national tendencies ; the Czech Socialism being strongly national. Extreme nationalism in a State inhabited by various nations, as is the case in Czecho-Slovakia, cannot be but one-sided. This ultra-national feeling does not correspond with the general interests of the State, as it would in a State formed of one nation only. As the Czechs number about half of the population of the republic their nationalism cannot be called democratic in the general sense ; on the contrary, experience has most regrettably shown that it is leading to despotic measures towards the other nationalities of the republic.

"It is true that the Socialist parties have lost adherents lately, and that this was proved clearly by the last elections. But the spirit of Socialism, quite independent of party politics, still predominates sufficiently to form a danger for economic development ; all the more as socialistic tendencies are not lessened but reinforced by national considerations. It is true that social reforms in Czecho-Slovakia have benefited largely from being influenced by socialistic ideas. However, in all economic questions Socialism has done as much harm to Czecho-Slovakia as to other countries where experiments of this kind were tried. Quite especially so by all sorts of measures disregarding the inviolability of private property, of which measures the land reform laws are the most conspicuous.

"The Czecho-Slovakian land reform cannot be compared to the reform carried through by Stolypin in Russia before the war. The latter was to have changed the collective properties

<sup>1</sup> *Industrial and Labour Information*, vol. xvii., No. 11, pp. 351-352.

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(*Mir*) into private ones, whereas the main principles of the Czech laws could better be likened to the reforms proposed by Lloyd George for England, with the one great difference that in Czecho-Slovakia there are no moors, no wide parks and no grass-land which could be turned into arable ground, and that the indemnity paid for the expropriated properties does not amount to more than the sixth or eighth part of their real value. The land reform in Czecho-Slovakia aims at dividing and cutting up the highly cultivated farms of the big landed proprietors. The results are already to be felt in lessening of agricultural production.

“In the parts of the country inhabited by national minorities the expropriated land was not partitioned, but sold at low prices to adherents of the Czech governmental parties. Subjects belonging to the national minorities have up to the last year received 2 per cent. of the partitioned soil, while subjects belonging to the Czech majority have received 98 per cent. It has even been openly declared by State officials that the object of the land reform is neither to be found in social nor in economical but in purely national tendencies.

“Only very few homesteads have been built, as financial means are wanting. Of course the number of landowning people has augmented, but only the lesser part of these is self-supporting. A self-supporting farmer must own at least 4 to 5 hectares, whereas the official statistics say that the average allotment did not amount to more than 1·8 hectares.

The indemnity paid to the employees and workmen who have lost their situations by the land reform is quite insufficient—the average does not amount to more than one year's wages. Many of these people have fallen into very sad circumstances.

“The moral damages caused by the land reform are equally serious. It has shaken the fundamental conceptions of law and right. There are, for instance, a large number of people who think it quite natural that personal relationship to prominent personalities or adherence to certain political parties entitles them to easy enrichment at the cost of their neighbours' property.

“The law concerning the capital levy also goes beyond its



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goal—especially dealing with the taxation of an imaginary increase of fortune, due in reality only to the rising of prices caused by monetary depreciation. At the time when the capital levy was fixed, the Czech crown was quoted at Zurich at 7 to 8 centimes. Up to the present nearly 6 milliards of crowns have been paid in as capital levy. But as the Czech crown to-day is worth 15.5 cm. this sum of 6 milliards represents a far larger amount in gold currency than has been expected as total result of the capital levy in 1920.

“The taxes on capital rise to 40 per cent. of the difference in value of a fortune from 1914 up to 1919. The same machine which was, for instance, valued at 50,000 crowns in 1914 could have been evaluated at 200,000 crowns in 1919. Although four years' use has lessened the actual value of this machine, the difference of 150,000 crowns would be taken as basis for taxation on increased value.

“Such financial and economic experiments could not have been borne without actual disasters if Czecho-Slovakia had not been an exceptionally rich country.

“The ground lost by the Socialist Party in Czecho-Slovakia has partly been gained by the Communists, who emerged from the last elections with 41 mandates, and whose party is the strongest but one in the republic. Communism finds many adherents amongst the agricultural workmen, and amongst those small farm-holders whose expectations have been frustrated by the carrying out of the land reform, which does not benefit general interests while enriching certain individuals.

“Many years will certainly have to elapse before the young republic succeeds in getting over the regrettable consequences of these errors.”

## CHAPTER VII

### DENMARK

THE reason for including Denmark in this survey is that since April 1924—that is, for more than two years—a Socialist Ministry has been in office there under Mr Stauning. But there is something ironical in the position; for no country in Western Europe conforms so little to the conditions that are held to demand Socialism according to prevailing theories on the subject.

It was the rise of machine-power industry, in which workmen are “exploited” by the owners of the works, who grab the “surplus value” created by “labour,” that originally provided the theoretical basis for Socialism as an organized movement, and it has taken its stand on the same economic platform ever since. To-day the “Capitalism” which is the object of the assault is always thought of as the large-scale industry, in which a great number of men are simultaneously employed in grinding out surplus value for the owners. Marx, indeed, laid it down in so many words that “Capital” only really begins with this form of production, and the general tendency of Socialist theory to-day is to let the smaller man alone and concentrate on “Big Business,” as it is sometimes called, though the economic principle, as Marx admitted, is exactly the same whether the number of persons employed as wage-earners in a concern is small or large. He thought the small concerns would all disappear and there would be nothing left but large ones, getting ever larger and fewer. That has not happened, but large-scale industry has grown larger and is more than ever the great citadel to be stormed and captured by society. It is held responsible for the big towns and all the evils associated with them. Lately, banking has been coupled with large-scale industry as a thing to be taken over at once, because they are allies and the one can be got at through the other. No Socialist who knows anything about his own subject will deny that large-scale industry is the heart of the problem and that “ripeness” for socialization depends on the degree of development it has reached.

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But in Denmark it is less developed than in any other Western country. There are no large-scale industries according to modern standards. There is only one large town, which is Copenhagen, and though it contains many industries they are on a small or moderate scale in size. The total population of the 85 provincial "towns" is only 739,483, and 69 of the 85 have less than 10,000 inhabitants; 15 have less than 2000. It is a land of little country towns, and the industries correspond. They are very varied and numerous, but scattered about and organized for the supply of local markets, not for mass production. The great majority of them are handicrafts. In 1914 there were 82,494 establishments, employing 232,615 workmen, and of the whole number 42,115, or more than half, were single-handed, employing no wage-earners; 34,014 employed from 1 to 5 persons; another 4779 employed less than 20 persons; and only 1586 employed more than 20 persons. Those employing over 100—the highest category—numbered only 264. In an industrial country the largest of these would count at most as medium-sized; and though there is a tendency to increased size it is rather counteracted by the use of modern forms of mechanical power in small establishments and is still confined within very modest dimensions. Such conditions are the very opposite of those on which the demand for socialization is based.

And if we turn to the land, which is still an object of attention to Socialists and occasionally placed in the foreground, Denmark offers a still less favourable field for the policy of expropriation. By far the greater part of the agricultural area is taken up by medium-sized and small farms, and an overwhelming majority of the farms are owned by the farmers: in 1919 only 7.5 per cent. were leased or tenanted. Moreover, this condition of things was confirmed and extended by the latest land legislation, passed in 1919, whereby portions of glebe lands and entailed estates were surrendered to form new holdings. Such estates became free, and the occupiers of the new farms enjoy all the essential rights of ownership in return for rent paid to the State. They number 2251 out of a total of approximately 300,000.

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In these circumstances it is not surprising that the present Socialist Government has not troubled itself at all with any approach to socialization. Even if the Parliamentary position were such as to make them independent of outside support it is difficult to see where they could begin. Half the railways belong to the State already and are run at a loss ; and the share capital of the companies which run the rest is nearly all in the hands of the State and the towns. There are no mines ; and no demand for taking over private enterprises. What the Government could do and has done is to get on with social reforms ; and this is probably what it was expected to do. The Socialist Party became for the first time the largest in the Folketing (Lower Chamber) at the election in April 1924, when they secured 55 seats, against 44 held by the Left Party (Liberals) 27 by the Conservatives, and 20 by the Radicals. Previously the Liberals had been the largest party, and had formed the Government, with the support of the Conservatives. In 1924 the positions were reversed, and the Socialists and Radicals mustered a majority over the Conservatives and Liberals ; but the margin is very narrow—only 75 against 71—and since the Opposition are considerably stronger in the Landsting (Upper Chamber) power is pretty evenly balanced. The move towards the Left has been gradual and cautious, anything but revolutionary. The chief support of the Socialist Party comes from the trade unions, which are very strong ; but, on the other hand, the Radicals draw theirs from the small landed property-holders, and the Liberals theirs from the farmers. The Prime Minister is himself an ex-workman and trade unionist, having begun his career as a cigar-worker, like the late Samuel Gompers in America ; and other members of the present Danish Cabinet belong to the same class. But they are no firebrands and nobody seems afraid of them. In a prolonged strike last year, which started with a demand for higher wages by unskilled labour, the Government took a strong line in regard to compulsory arbitration in the national interest. The Prime Minister asked for a vote of confidence, and successfully defended his action on the ground that it was necessary in order to maintain the country's exports.



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More than four-fifths of those exports, by the way, are agricultural produce, and more than two-thirds of them (68·7 per cent. in 1923) go to Great Britain; Germany comes next with a beggarly 6·2 per cent. But of the imports into Denmark Great Britain's share is only 20 per cent. to Germany's 32 per cent. Butter is one of the greatest items in Danish exports to Great Britain, as everyone knows, but a curious result follows, which everyone does not know. Butter prices, I was told, are world prices, and are made in London; the Danish housewife has to pay as much for Danish butter as the English one. If she did not it would be all exported to get the higher price. When the Danish currency was depreciated the exporters, being paid in sterling, flourished exceedingly; but last winter the krone rose rapidly in consequence of stabilization, and caused considerable economic disturbance, with a good deal of unemployment. That, however, is a transient phenomenon.

Mr Stauning's Government, having come in on the election cry of an "active" Parliament, proceeded to make good the promise by introducing a vast number of Bills, of which many were shelved or lost in committee; eleven were passed dealing with various matters of more or less importance, but having nothing to do with Socialism. Fourteen were left outstanding, of which the most interesting is the Disarmament Bill, still passing through the Rigsdag. Others which the Prime Minister stated that the Government intended to take up during the session were remedial measures dealing with old-age persons, unemployment, the penal laws, ground rents, land taxation, bank and company laws, game laws, and labour laws, particularly the eight-hours day—all subjects that any government might deal with, and most governments have dealt with. The only distinctive thing is a tendency to "Poplarization," and this shows itself also in administration. When I asked what the Government were doing to realize Socialism the answer I received was: "Putting Socialists into administrative offices."

All these things are commonplaces of governmental activity. Denmark is a very stable country, with its nicely balanced

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political parties and economic interests, its smallholders and small crafts, its agricultural exports and manufactures for the home market, and its unemotional temperament. It will embark on no wild adventures. There is a Communist Party, but it is very weak.

### NOTE ON BELGIUM

I will add a few remarks about Belgium, which last year joined the list of countries having a partly Socialist Ministry. This occurred in consequence of the General Election held in April 1925, when the Socialist Party secured ten more seats (78) than in 1921 and drew level with the Centre (Catholic) Party, who lost two seats, while the Liberals dropped from 33 to 23. This altered the balance sufficiently to cause the resignation of M. Theunis, who had been the head of a Coalition Ministry formed by the Conservative Catholics and the Liberals. The Catholics are divided, I should explain, into a Right or Conservative and a Left or quasi-Socialist wing. Then M. Vandervelde, so long the distinguished leader of the Belgian Socialists, tried to effect another coalition with the Left Wing Catholics, with himself as Prime Minister; but he did not succeed, and great difficulty was experienced in forming a Government at all. Eventually it was arranged in June on a basis of equal representation of both parties under Viscount Poulet as president, with M. Vandervelde as vice-president. The Ministry was therefore composed of five Catholics and five Socialists, who took the Foreign Office (Vandervelde), Education (Huysmans), Transport (Anseele), Public Works (Laboulle), and Labour (Wauters), together with two Liberals as a makeweight. Of course, in these circumstances there could not be any decided advance towards Socialism proper. M. Vandervelde himself was occupied with international affairs, but his views are well known. They are in keeping with those of the Swedish Socialists, and he is particularly strong on the unsuitability of the State to run business. He favours the half-way form of an independent statutory body.

In May 1926 a ministerial crisis occurred, which led to

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the resignation of Viscount Pouillet. He was succeeded by M. Jaspar, who formed a new Coalition Cabinet, in which the Liberal element was somewhat larger but the equal representation of Centre and Socialists was retained, with four members of each party in the Government. Belgian Socialism is of a very moderate character, and distinguished by the importance it attaches to the Co-operative Movement. No one is more obnoxious to Moscow than M. Vandervelde.

The one interesting event bearing on Socialism is the transference of 3000 miles of State railways from State administration to a "national company." This is a measure of denationalization in keeping with the general tendency noted above. The Bill for effecting the change was introduced in the Chamber of Deputies in July 1926. The company is called an "autonomous *régie*," and is controlled by a composite governing body of twenty-one, of whom three are nominated by the staff and three by the Crown from lists representing consumers and workers; ten are appointed directly by the Crown and the remaining five from candidates proposed by the governing body of the Public Debt Redemption Fund.

## CHAPTER VIII

### MUNICIPAL SOCIALISM

IN Chapter IV. I have given an account of the administration of Vienna, which furnishes the most complete example of municipal government by a strong Socialist majority; and I have shown that there is not much in it of municipal Socialism as commonly understood in this country, meaning services and enterprises owned and conducted by local authorities, whether of towns or district combinations of smaller units. Apart from this I have made only a few passing references to particular towns. But it is a considerable branch of the general subject, and one to which some English Socialists attach particular importance. It calls, therefore, for further notice.

Unfortunately, it is difficult to obtain comprehensive information about local public undertakings. I have inquired everywhere, and have learned something of more or less interest about the particular town I happened to be in. But to generalize from a few scattered examples would be misleading, and attempts to obtain full and comprehensive information were unsuccessful, with one exception, to which I shall come in a moment. It is surprising that so little has been done to investigate the subject and ascertain what is going on in the field of local administration in these later years of political and economic change. Central authorities have, presumably, a certain amount of information in their possession, but it does not appear to be readily accessible—unless I was very unfortunate—and official returns are apt to be rather dry bones, which do not tell one what one most wants to know. The only way to obtain a thorough knowledge would be to go round the towns and find out the real state of things in each; but this would be a laborious and expensive investigation, which is perhaps one reason why it has not been undertaken.

There is another and much easier way of obtaining comprehensive information, and that is by a circular inquiry or *questionnaire*. It is less satisfactory than personal investigation, but more informing than the bare figures of official returns,



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and it has been applied in Germany. In 1924 a circular inquiry was carried out for the Städtetag, or Congress of Municipal Authorities, an institution for which we have no equivalent, though there is something of the kind in Scotland. The inquiry was addressed to all towns of 25,000 inhabitants and upwards, and it requested information about the form of administration in force for municipal undertakings. The fact that such an inquiry was needed shows the standing lack of information on the subject. The results were set out in the *Zeitschrift für Kommunalwirtschaft*, the official organ of the Municipal Economy and Politics Association, by Dr Chlebowsky, legal adviser to the Magistrat (Administrative Council) of the town of Hindenburg. What follows is taken from his report.

He begins by pointing out that the administration of municipal undertakings has become an extraordinarily actual question; there is hardly a single community that is not obliged to consider it, and it is constantly discussed in the daily papers and technical journals and at meetings of societies. It is particularly emphasised by the managers, who see in the withdrawal of the works from municipal control the sole remedy for the financial difficulties in which they are involved. The question is not altogether new. Before the war there was a general consensus of opinion that the numerous functions imposed on municipal undertakings by the great expansion of German economy and the rapid growth of towns could not be fulfilled in the manner to be expected of industrial and business concerns, under the usual forms of municipal administration, which had to conform to legal conditions and narrow regulations.

The tentative reform movement then begun was stopped by the war, but set in all the more strongly afterwards. The conditions made it imperative to conduct the municipal concerns in the most economic manner possible and the problem demanded thorough study. In a Local Government Bill laid before the Prussian Parliament in 1922, towns were expressly authorized to set up gainful undertakings—that is, with the object of permanent profit—for purely fiscal purposes, in addition to the public utility services; and one of the clauses laid it down that “gainful undertakings should be conducted on business

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principles and should aim in principle at producing a surplus, in order to assist in defraying the expenses of the town, but at any rate to cover the costs of the undertaking, the interest on the capital laid out, a sinking fund, and the renewal of the plant."

The town authorities thought this did not go far enough, though it went some way to meet the case, and they held that the word "should" ought to be replaced by "must." The principle that gainful undertakings must be conducted commercially and not bureaucratically was so fully recognized in all political and economic circles that they thought the Legislature ought to give effect to it. The Bill, drafted in 1922, had not been passed in 1924, and, since it was quite uncertain when it would be, they were faced by the question how municipal works could attain the highest degree of economic efficiency under the existing law, whether in the form of purely municipal revenue-producing concerns or as purely private enterprises or as "mixed" economic undertakings, in which public and private capital were combined. The last had come to the forefront in the previous decade, as the proceedings of the German Städtetag showed beyond all question.

In 1914 a resolution was adopted in favour of the mixed economic principle, on the ground that technical progress demanded a new economic form, and that experience had proved the superior economic efficiency of private enterprise, particularly in the case of electricity, while the participation of public bodies, on the other hand, was desirable in the general interest and for the sake of municipal finance. Already, at that time, 75 towns had made arrangements with private capital in regard to 91 enterprises of a purely business character; and this development advanced rapidly during the first years of the war. But it did not last, and presently the towns began to pass from the mixed to the company form of organization. The meaning of this is that the question of organization came to be more important than that of finance, and the determining factor in all the forms adopted was the commercial character, adaptability and mobility which pertain to the limited liability company.

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Then came the revolution, and with it the attempts at socialization, which checked or stopped the development of the mixed undertaking. When they ebbed, in turn, the reaction brought a marked revival of interest in it, and there followed a stage of compromise up to the time of Dr Chlebowsky's account. On the one hand, the idea of withdrawing municipal undertakings, and particularly town works, from the general administration was maintained on the ground that the clumsy bureaucratic management was totally inadequate to meet the requirements. On the other hand, the idea of allowing private capital to exercise an influence on the economic productivity of municipal undertakings lost ground. On all sides the aim was to utilize the advantages of business management, without abandoning the character of a *régie* or public revenue-bearing concern.

The whole question came again before the Städtetag, and was fully discussed from all points of view by members representing every form of administration, from the purely private to the wholly public. The former was rejected on the ground that the concerns in question are monopolies; so, too, the suggestion of combining private with public capital in such a manner that the latter would represent a smaller share of the total than the former. On the other hand, the plan of forming a special company with complete—or at least superior—municipal influence and the so-called “improved” *régie* were approved. The latter consists in handing over the actual conduct of the concern to as small a committee as possible, with the necessary full powers of administration. In many cases this has been carried farther: the works have been separated from the general administration and formed into an independent municipal undertaking run on business lines. In this case the organization resembles that of a company; but it has, in Dr Chlebowsky's opinion, certain advantages over the municipal company system, and has been adopted by an increasing number of towns. He thinks it will be the predominant form of the future.

The Städtetag came to the following conclusions:

1. Gas-works, electrical works and trams, on account of their monopoly character, their importance in the daily life of

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the people, and their close connexion with general municipal policy, especially settlement (housing) policy, must not be left to purely private economy, but are to be carried on as municipal undertakings.

2. But the experience of recent years has, at the same time, taught afresh and with increased insistence that the works can be rightly conducted as municipal concerns only when the organization and management embody important principles of private economy—without prejudice to the principle of preserving the determining influence of municipal policy.

Even in municipal hands the works must be economically conducted—that is, they must produce the highest attainable financial benefit by adroit adaptation to existing circumstances. To secure this, the form of administration must be debureaucratized—that is, it must be rendered capable of quicker decisions by avoidance of the hindrances that occur in the usual business procedure of a municipal office. Further, it must be an axiom that the administration be carried on wholly in accordance with practical, economic and municipal considerations and, at the same time, on fixed principles.

3. These requirements can be fulfilled in different forms—by (i) a *régie* or (ii) a company. The form selected must be determined by local circumstances, general political considerations and sometimes also by personal relations.

4. The *régie* concern, in which not only the ownership remains in the hands of the community but also the management is directly exercised by town officials, must be so organized that an effective simplification and speeding-up of decisions is secured, as compared with the usual procedure.

5. When a company is formed, the municipal character of the undertaking can be maintained only when either the whole of the capital required for the formation or the greater part of it remains in the hands of the community.

Dr Chlebowsky then proceeds to give the results of the circular inquiry with regard to the actual forms of administration existing at the time in all German towns of 25,000 inhabitants and upwards. The municipal undertakings kept more



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particularly in view were gas, electricity, water-works, trams and "harbours," which include inland river and canal port accommodation; but some of the towns added other concerns in their replies. Municipal activity, it should be understood, is much more highly developed in Germany than in England; it includes, for instance, mines, breweries, forests, canals, mills, local railways, banks, theatres, wharves, brickfields, and other things. In all, 22 different concerns are named, but most of the towns took account only of the five selected ones mentioned above, and some gave no details.

The forms of administration are classified under nine heads: (1) purely municipal; (2) "improved *régie*"; (3) independent municipal; (4-6) companies having no private capital: (*a*) as limited liability companies; (*b*) share companies; (*c*) statutory corporation; (7) mixed companies (public and private capital); (8) inter-municipal undertakings, generally in the form of a company; (9) let to private firms by contract.

The purely municipal form was still retained with regard to some services—chiefly gas, electricity and water—in 79 towns, of which the most important were Stuttgart (where, however, companies were about to be adopted), Cologne, Frankfort (gas excepted), Düsseldorf, Chemnitz (water only). Most of the other towns in this list were small, and many had only a single purely municipal service (either water or harbour). The "improved *régie*" had been adopted by 67 towns, and the independent municipal undertaking by 26; and these two classes included some towns of the first rank—namely, Munich, Dresden, Leipzig, Breslau, besides Hanover, Bremen, Essen, Elberfeld, Nuremberg, and many other important industrial and commercial centres. The largest of these towns had adopted the independent form which Dr Chlebowsky regards as the predominant type of the future. In Dresden, electricity, gas, trams, water and slaughter-houses were all conducted on this system; in Munich electricity, gas and trams; in Leipzig, electricity, gas and water.

In 13 towns, including Berlin and Hamburg, some of the most important municipal services have been turned into companies, in which all the shares are held by the municipality.

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The pioneer town in introducing this change was Königsberg, which in November 1919 set up the Königsberg Municipal Gas Works Co. Limited, and subsequently placed the municipal trams, water-works, electricity supply, harbour and canals on the same footing. "The experience of four years," says Dr Chlebowsky, "has shown that the undertaking works satisfactorily in every respect."

In Berlin the question of treating the municipal gas, water and electricity supply in this way was referred to a special committee of inquiry in 1923. The committee, which had before it the example of the Prussian Landtag in dealing with the State mines, came to the conclusion that a share company was preferable to a limited liability company and that the concerns in question should be let to such a company or to several. Opinion was very evenly divided as to whether there should be a single company for all three undertakings or a separate one for each, but the former view prevailed by 13 votes to 12. The majority contended that the public interests would be better served by the combined administration, while the minority held that separate control would be economically more efficient and that the public interest could be fully safeguarded by a supervisory council or, if necessary, by setting up a superior covering company.

The principal features of the organization were as follows.

The firm to be named the "Berlin Municipal Works Company," and to be set up for fifty years; it undertakes to provide Berlin and other districts with gas, water and electricity by leasing the municipal works, including the subsidiary concerns; it has power to take part in or to acquire similar undertakings and to form auxiliary independent companies; the foundation capital to be £5,000,000 divided into 1000 shares of £5000; alienation or mortgaging of shares must be sanctioned by the Council and the General Meeting; the organization to consist of (1) Executive Committee or Directorate, (2) Supervising Council, (3) General Meeting; the Executive Committee to consist of at most 7 ordinary members, appointed and retired by the Council, which can also appoint deputy members; the Council to consist of 15 persons elected

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annually by the General Meeting; and to have control of the financial and commercial operations of the company; the General Meeting to be held annually, to receive reports from the Committee and the Council, decide financial questions and elect members of the Council.

The contract provided that the City Corporation should let to the Company for a period of fifty years, with power to sublet, the gas, water and electricity works, the ice factory and the central insulation station, together with all the undertakings associated therewith, the premises, buildings, plant, etc.; that the conduct of business matters arising from the participation of the City in concerns of this kind should be left to the Company, and that the profits accruing therefrom should go direct to the City; that the Company should take the responsibility of carrying on the undertakings on a scale adequate to the needs of the population, should keep all installations in good order and condition, with the necessary renewals and technical improvements, should have power to dispose of useless buildings and installations of all kinds, and to close uneconomic works in favour of modernized ones; the Company to prepare beforehand plans for new construction required by increased consumption or technical progress and to lay them before the City, which may grant permission to raise fresh capital by loan, if necessary; the Company to conduct the works in the spirit of social economy, in fixing prices to take account of the economic needs of the community and to proceed on the principle of covering the actual expenditure for interest and sinking fund on loan and working capital and for overhead costs, including writing off and reserves; the Company to pay to the City 5 per cent. of all receipts from current, gas and water as rent and compensation for the use of streets, open spaces and pipe-lines, to deliver the by-products of the gas-works at wholesale prices, to carry out street lighting at cost price, while the City pays for current or gas at the ordinary price; the Company is bound to take over the staffs of the undertakings concerned and to preserve their rights, including pensions; at the conclusion of the lease all installations, etc., to be returned to the City in good working order.

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These details, taken from the official reports, are given because of the outstanding position of Berlin as the greatest of German municipalities and one which has long enjoyed the reputation of being particularly well administered. They will, I hope, be of interest as an illustration of the new forms of economic organization which are being widely adopted both in State and municipal enterprise. The reasons for the change in Berlin were stated in a report made in August 1922 by an expert committee appointed to consider the question, which had been raised by a deputation from the municipal works in the previous year. It was generally agreed that the previous system could no longer continue, and the committee laid down two objects to be secured by reorganization: the works must be removed as far as possible from the municipal atmosphere, and must possess the greatest attainable freedom of action. In their opinion these aims could be attained only by applying the methods of private capital in the form of a company, and that an owning and operating company to which daughter companies might be affiliated. Referring to this recommendation in the sitting of the City Assembly on 24th February 1923 the official statement was that the conditions in the works were not really so critical as might appear from the report; but "it must be universally admitted that the municipal works, which had already been made considerably more flexible through the provisional measures proposed by the deputation, needed still more freedom of action"; and that "for their free economic operation in accordance with commercial principles the only form of organization that came in question was that of a company." Evidently the whole problem had been very thoroughly considered and there was no doubt about the need or the character of the change. The Social Democrats appear to be generally in agreement with the policy of transforming public works, whether State or municipal, into companies for the sake of greater economic efficiency; but Communists object that such a contract as that described above leaves a loophole for the return of private ownership.

There is, in fact, a good deal of private capital jointly invested in municipal concerns. The mixed companies mentioned



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above as No. (7) of the several existing forms of organization are of that character. Dr Chlebowsky gives a list of 56 such undertakings in 44 towns—including Berlin, Hamburg and other important places; for it must be understood that there is no uniformity and that in the same town different services are run on different systems. The following Table gives the 56 companies with the respective proportion of private capital in each, so far as that is known; in a few cases the amount is not stated in the returns. With four exceptions all these companies were formed during the present century, 23 of them since 1914 and 16 since the war, which seems to indicate a growing tendency. The greater number of them are for electricity works and local light railways, but there are also some gas-works, tramways and water-works.

### MIXED PUBLIC AND PRIVATE COMPANIES

<i>Town</i>	<i>Name of Company</i>	<i>Proportion of Private Capital</i>
		<i>Per Cent.</i>
Aachen .	Aachen Light Railway Co.	{ Less than } 50
Altona .	Railway Co.	5
Augsburg .	Lech Electricity Works Co.	92·3
Bamberg .	U. berlandwerk Oberfranken Co.	40
Berlin .	South-West Electricity Works Co.	56·3
Berlin .	German Gas Co.	26·61
Brunswick .	Street Railway & Electricity Co.	49
Celle .	Celler Tramway Co. Ltd.	49
Celle .	Celle-Wittingen Light Railway Co.	21·81
Crefeld .	Tramway Co.	{ Less than } 50
Darmstadt .	Hessian Railway Co.	47
Dortmund .	Dortmund Gas Light Co.	1·6
Duisburg .	Ruhrort District Railway Co.	0·45
Düsseldorf .	Rhine Railway Co.	16·86
Elberfeld .	Berg Light Railway Co.	51

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## MIXED PUBLIC AND PRIVATE COMPANIES—*continued*

<i>Town</i>	<i>Name of Company</i>	<i>Proportion of Private Capital</i>
		<i>Per Cent.</i>
Elberfeld .	Vohwinkel Hanging Railway Co.	51
Elberfeld .	Electric Tramway Co.	80
Elberfeld .	Berg Electricity Supply Co. Ltd.	51
Emden .	Gas & Electricity Works Co. Ltd.	40
Erfurt .	Erfurt Electric Tramway Co. Ltd.	32·07
Essen .	Rhine-Westphalian Electricity Co.	{ <i>Less than</i> 50 }
Essen .	South-German Railway Co.	?
Essen .	Gelsenkirchen Waterworks Co.	?
Esslingen .	Esslingen Gas Co. Ltd.	28·9
Frankfurt-on- Main .	Frankfurt Gas Co.	49
Frankfurt-on- Oder .	Frankfurt Electricity Co. Ltd.	50
Fürth .	Franken Power Works Co.	64·84
Gelsenkirchen	Bochum - Gelsenkirchen Railway Co. Ltd.	25
Gladbeck .	Rhine - Westphalian Waterworks Co. Ltd.	15
Hagen .	Mark Municipal Electricity Works Co.	12·7
Hamburg .	Hamburg Elevated Railway Co.	49
Hamburg .	Hamburg Electricity Works Co.	50
Kaiserslautern	Gas Co.	55·56
Kaiserslautern	Electric Tramway Co.	49
Lüdenscheid .	Mark Municipal Electricity Co.	12·7
Ludwigshafen	Ludwigshafen Palatinate Works Co.	27·83
Madgeburg .	Salbke Gas Works Co.	79·1
Madgeburg .	Madgeburg Street Railway Co.	49·98
Mannheim .	Rheinau Power Works Co.	37·5
Mannheim .	Rheinau Waterworks Co. Ltd.	50

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## MIXED PUBLIC AND PRIVATE COMPANIES—*continued*

<i>Town</i>	<i>Name of Company</i>	<i>Proportion of Private Capital</i>
		<i>Per Cent.</i>
Merseburg	Merseburg Light Railway Co.	40·92
Mülheim	Rhine - Westphalian Waterworks Co. Ltd.	15
Nürnberg	Franken Power Works Co.	64·84
Paderborn	Paderborn Electricity & Tram- ways Co.	41·2
Regensburg	Upper Palatinate District Co. Ltd.	18
Rheydt	Lower Rhine Light & Power Co.	50
Schneidemühl	Schneidemühl Town Works Co. Ltd.	33·33
Stargard	Saatziger Light Railway Co.	7·90
Stettin	Harbour Co. Ltd.	20
Stralsund	Stralsund Triebsses Railway Co.	61
Stuttgart	Stuttgart Tramways Co.	{ <i>Less than</i> 50 }
Trier	South Rhine Power Supply Co. Ltd.	13
Wilhelmshaven	Wilhelmshaven Gas & Electricity Co. Ltd.	66·66
Wittenberg	Wittenberg Light & Power Co. Ltd.	40
Worms	Rhine-Hesse Electricity Works Co.	50
Worms	Rhenania, Worms Warehouse & Carrier Co.	50

In Berlin yet another way of running enterprises owned by the town is exemplified by the three internal quick railways, which are let to a private company.

There are no materials for comparing the efficiency of the several methods of administration enumerated. But I am less concerned with that than with the tendency of economic evolution

## THE BREAKDOWN OF SOCIALISM

in this field ; and there is no doubt at all that the movement in regard to municipal undertakings is broadly in the same direction as that previously described in regard to State undertakings. The condemnation of municipal management is less unanimous and emphatic than of State management, but it is general, and the change going on is similar ; it is commercialization by the adoption of business methods. There seems to be no present tendency towards the extension of municipal enterprise by the absorption of private, or in competition with it.



## CHAPTER IX

### THE LESSONS FROM EXPERIENCE

THE experiences described in the preceding chapters have changed the attitude of Continental Socialists towards the economic problem they have set themselves to solve. The success of Socialism as a political movement since the war has, by bringing it to the test of action, revealed the difficulties of realizing it as an economic system and exposed the inadequacy of previous conceptions so plainly as to compel a reconsideration of the whole problem. The attempt to socialize industry and trade on lines once generally accepted as self-evident without any serious examination has everywhere broken down. Most completely in Russia, where the attempt was most complete. That breakdown was too complete to be ignored or covered up. To go on was impossible and some sacrifice of principle had to be openly made in order to carry on at all. The machine, reconstructed by a partial reintroduction of the discarded motive power called free enterprise, worked better just in proportion to the reconstruction, and produced some improvement, but fell off again as soon as the motive power was forcibly damped down in the interests of the theoretical system, which had failed, but had not been abandoned. This necessitated a second turnabout and a fresh permit for the limited amount of capitalism allowed, with the result of a little further improvement.

So the Russian doctrinaires have been compelled by economic necessity to change their practice twice; but they have done so with the utmost reluctance, because their political system is bound up with the discredited economic principles, to which they resolutely cling for that reason. Consequently they sway uneasily to and fro between the policy of allowing some free economic activity, forced upon them by the pressure of reality, and the policy of suppressing it at the call of theory, with the result that they make no substantial progress, and all their institutions are in a state of more or less marked chronic insolvency, which they vainly endeavour to relieve by begging,

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on the one hand, for foreign credits, and by calling, on the other, for further efforts from their workmen, whose scanty pay is always in arrears, and for further sacrifices from the overtaxed peasants, while they console themselves with the last refuge of the self-deceived—the “stage of transition.” Every stage is one of transition, but the question is, what will be the next one? Fanatics, disillusioned about the present stage, call it transitional, which it undeniably is; but what they mean is that the next one will fulfil all their hopes, though there is no more reason for expecting it than before. So “scientific” Socialism becomes the most Utopian of all.

Nevertheless the Russian Leninists have learned something from experience, even if it is only for the period of transition. They have learned that the primary economic task is production; that for production capital is necessary, and that it does not fall from heaven but must be constantly renewed by saving out of profits; that men are naturally lazy and will not work without a personal incentive; that the virtues attributed to the “proletariat” have yet to be acquired; that agricultural workers will not produce for common use but only for their own profit; that hired labour cannot be abolished; that workmen are incapable of conducting industry; that competent directing authority is essential to success; that technicians and skilled workmen are indispensable and must be trained; that piece-work and payment by results are necessary to secure output; that State enterprises work badly and that officials can be incompetent and corrupt; that exchange cannot be carried on without a market and the use of money; that private enterprise adapts itself more readily to the requirements of production and consumption than official institutions. In short, they have learned that the elements of capitalist economy are not the arbitrary creation of the “bourgeoisie,” invented for the sole purpose of exploiting labour, but real factors which cannot be abolished without disaster—of course, in the transitional stage, which is, however, the stage in which we happen to live.

In other countries the example of Russia—after some abortive attempts at imitation under the intoxicating influence of revolutionary excitement—has had a sobering effect on the

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mentality of Socialists at large, and inclined them rather to caution than to rashness. Only a minority, calling themselves Communists, have placed themselves under the tutelage of Moscow ; and even they, when they are asked what they would do, say that they would avoid the mistakes made in Russia, though beyond this negative statement they do not go, having formulated no constructive policy against the day when they shall have achieved the armed revolution—which is the task constantly urged upon them by their teachers and paymasters in Moscow.

What the other Socialists did to realize Socialism, when the opportunity came for making a start, has been narrated. They began to consider the practical problem of socialization, and produced a prodigious mass of theory and argument, which disclosed endless differences of opinion but no generally acceptable solution, not because of opposition but because of the inherent difficulties of the problem. I have given some account of the official inquiries in Germany and Sweden, each of which produced fourteen volumes of reports ; and besides these there have been others in Austria, Bavaria, Norway and elsewhere. But the flood of books and pamphlets was still greater. The mass of Socialization literature is, indeed, overwhelming ; and much of it is by very capable and earnest men. But never has a mountain of thought directed to a practical end brought forth a smaller mouse. Eventually discussion ran itself dry and disappeared in the barren sands of controversy. And in the meantime practically nothing was done to realize the ideal. No industry has been socialized.

I call this a breakdown at the start, and I find that opinion widely prevalent on the Continent. Such terms as fiasco, failure and shipwreck are applied to the experience quite simply, as if in need of no explanation or justification. One effect has been to induce some Socialists to join the Communist Party. A well-known German Socialist and an old friend of mine wrote to me by pure coincidence after my return to England to inform me that he had left the Social Democratic Party and joined the Communists ; and the reason was "the failure of Social Democracy." He wrote in some distress of mind, and did not

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say what he expected of the Communist Party; but he explained that he had either to retreat or to move forward, and his convictions would not allow him to retreat. I understand him quite well. He has been disillusioned by the failure of his party to utilize the opportunity as he thinks they might have done, and sees no prospect of advance in their policy; but he cannot give up his faith, and takes refuge in the belief, or the hope, that a more vigorous policy may succeed better. That is what Communism means to him; but it is not the Russian brand; he is not an agitator, and no man is less likely to countenance violence.

There are others who think as he does; they are sick with disappointment. But that is because they have cherished illusions. They are right about the failure, but wrong in attributing it to a weak policy; the real cause lies in the nature of things and of men. The machine could not be got to run because it is constructed on wrong principles based on the miscalculation of forces. Attempts to make it move by raising the steam-pressure can result only in knocking it to pieces or blowing it up.

But most Continental Socialists have learned the lesson otherwise. The experience has not gone for nothing. They have not renounced their faith, but they have modified the terms of their creed. They see things in a new light and have adopted a new attitude.

Out of all the turmoil and discussion some general conclusions emerge.

The first has been already mentioned as one of the discoveries made in Russia. It is the primary importance of productivity in any economic system. Recognition of the truth that the first problem to be solved is production, that all others depend on it, and that its successful solution is no simple matter, to be taken for granted or settled off-hand, but one of great complexity, and that before you pull down you must be quite sure that you can rebuild better with a view to production—this is the first lesson taught to Socialists by the novel experience of being called upon to turn from agitation to action, and to translate theory into practice. And it involves many others.



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If it is objected that the importance of production has always been recognized by Socialists, the reply is that it has never before been recognized as a practical problem presenting any difficulty or as one which must be successfully solved as a precedent condition for other tasks. There is nothing about it in that light in all the literature of Socialism, whether Marxian or Fabian, reformist or revolutionary, before the war. That is one reason why economists paid so little attention to Socialist economics; it is why the Bolsheviks dashed with the utmost confidence into their impossible economic system and why elsewhere more sober Socialists set up inquiries. There was some criticism of the failure of capitalist economy to produce, but even that was far less emphasized than its failure to distribute. Ever since Socialism first appeared on the scene as an organized movement, a hundred years ago, it has been held that the great problem which it presented for solution was the distribution—or more correctly the division—of the product. The case for Socialism was that the division under private ownership was both unequal and unjust, and that the only remedy was common or social ownership of the means of production, transport, etc. Production was taken for granted as already provided, and all that was necessary was to take over the existing means and rearrange the division of the wealth produced. If any attention at all was paid to production, it was simply assumed that the existing means would suffice and would work rather better under social than under individual ownership; but, generally speaking, it was passed over as a settled and self-evident part of the problem, requiring no examination, and it found no place in the various statements of principles and policy. The only exception was one of the earliest pioneers of Socialism, Saint-Simon, who placed the problem of production in the forefront of his plans, and insisted before all things on the application of science and the exercise of control by the most intelligent persons. It is an interesting fact, not without significance, that there is a tendency to-day among German economic Socialists to go back behind Marx to Saint-Simon.

The other early Socialists did not, indeed, propose to take

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over the actual means of production possessed by private persons, but to create their own on the same model, and run them differently. The idea of taking over, or expropriation, whether by the State or the "proletariat," of existing concerns, built up by private enterprise, as a ready-made equipment for production, is distinctive of the second and wholly sterile phase of the Socialist Movement, which started in Germany sixty years ago and became generally active some twenty years later. The owners were to be expropriated and the thing would be done, and this conception was strengthened by the fact that certain mature monopolies were taken over by the State or by the municipality, which were in a position to cover any economic failure by taxation or by transferring revenue from one account to another. So the problem of production seemed to be solved beforehand and there was no need to think about it.

The discovery, therefore, that the primary problem which has to be solved under socialization is this very problem of production, and that its solution is exceedingly difficult, puts the whole question on a different footing. It was first partly realized by the Bolshevists in 1918, when they had expropriated the former owners and found themselves faced by a greatly diminished productivity. Lenin then recognized that they must, before all things, increase it; and to this day increased productivity has been their constant cry in the economic field. When their turn came the German and Austrian Socialists realized the same truth and put productivity in the foreground. It must not only be maintained under any new system but must be increased. As Paul Umbreit told the German trade unionists at the meeting mentioned in Chapter III.: "Socialism is dependent on increased production."<sup>1</sup>

The same conclusion must force itself on all Socialists as soon as they come to the practical question; for better distribution is obviously of no benefit if there is less to distribute. Nor does the easy assumption that productivity will increase under some ingenious but hypothetical scheme any longer suffice when the actual task presents itself and the responsibility for performing it falls upon Socialists themselves. They cannot

<sup>1</sup> See p. 86.

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risk failure when dealing with realities, and are forced to take the problem seriously. Hence all the inquiries into socialization, which show that the process is far more delicate and difficult than had been supposed, with the result that private ownership has so far been left in possession.

The second general conclusion is intimately connected with the first. Recognition of the supreme importance of productivity for the success of Socialism entails condemnation of State-conducted industry. Outside Soviet Russia the policy of nationalization in the old sense is dead on the Continent ; and even in Russia its failure is tacitly admitted by the organization of large-scale industry in trusts and by leaving small industries to private enterprise. Elsewhere it is everywhere condemned ; no one of any authority has a good word to say for it. Experience has justified the standing objections brought against State undertakings by critics—that they are economically inefficient and liable to political corruption on account of the bureaucratic organization inseparable from State control. I have already cited sufficient evidence of the prevalence of this judgment among leading Continental Socialists to-day and of their consequent change of policy ; but to leave no doubt upon the subject I will add some more testimony, and, at the risk of repetition, put the most authoritative utterances together for easy reference. Dr Kautsky states the case in the most general terms in his introduction to the new programme of the German Social Democratic Party, adopted in September 1925 at the Heidelberg Conference :

“ The State undertaking, with the powers and methods of bureaucracy as hitherto known, has everywhere failed. It no longer comes into consideration for socialization.”

The rejection is here absolute, and it implies that the form of economic organization now rejected was formerly accepted. Nor is there any doubt that it was. All State undertakings were bureaucratic, and up to the time when the revolt of Syndicalism compelled thinking Socialists to reconsider the position State Collectivism of this type, with Municipal Collectivism tacked on, was the generally accepted alternative to the existing economic order. It is still the most widely prevalent conception,

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at least among British Socialists, as witness their attitude towards the State war industries and sundry experiments in Australia, as well as municipal undertakings conducted in the same way; they are all held up as instances of Socialism in practice, and no effort is spared to make them appear successful.

But the significance of the authoritative repudiation quoted above does not end there. Why is State Collectivism condemned? Thoroughgoing Marxian Socialists have always maintained that the State they contemplated was not the existing "bourgeois," or capitalist, State, but the "proletarian" State of the future, which would be set up under a purely democratic constitution and would be a totally different thing.

Now they have got, in Germany and elsewhere, what they never expected to get without an indefinitely protracted struggle—namely, the most completely democratic constitution that they themselves were able to devise. And here I would remark parenthetically that the Socialists who endeavoured to save Germany from defeat, and still regret that they failed, seem entirely oblivious of this tremendous change, and do not see that, if they had succeeded, the monarchy and militarism that they detest would have been more firmly established than before. However, they failed; and the political conditions required for the "proletarian" State were secured by the revolution that followed defeat. More than that, in Germany the "proletarian" State—if that is represented by a purely Socialist Administration, as presumably it must be—was actually established and was, for a time, in undisputed control.

As Paul Umbreit declared to the Trade Union Congress at Nuremberg, the great day on which the working classes had been taught for decades to set their hopes, the knell of the capitalist system, the emancipation of the proletariat, the birth-day of the Socialist society—that great day had come. If the Socialists failed to maintain their ascendancy it was because the democratic electorate refused to give them sufficient support. At any rate, the old objection to the State as the organ of the "ruling classes" no longer applied; for the politically ruling



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classes under adult suffrage and proportional representation are those which contain the largest number of voters, as the German Socialists, who at least are logical, see clearly enough. If the proletariat have not put the Socialists in power it is because they have not chosen to do so.

The present repudiation of State control by Continental Socialists has consequently nothing to do with the old objection, but rests on wholly different grounds; and it is important to realize this, because it means that the fault is now admitted to lie in the form of organization itself, independent of the character or policy of the administration in power. The catalogue of defects reported by the German Socialization Commission in regard to the State coal mines as the reason for their condemnation has already been quoted, as well as Herr Osterroth's opinion, and I will not repeat them; but the testimony of a representative trade union leader may be added, as evidence from a different quarter.

At the meeting already mentioned, Paul Umbreit put the case before the trade unions, explaining the process of socialization and appealing for their help by every man giving the utmost of his strength:

"Only of one thing Socialism must beware—namely, bureaucracy, which without any feeling for the real cohesion of the Socialistic society, and without interest in its success, thinks only of its own position and wishes to rule, command and systematize. Bureaucracy is the worst internal enemy of Socialism, and it is impossible to do too much to guard against its introduction and prevent its rise."

The emphatic and repeated insistence by Continental Socialists on this danger to public undertakings comes from experience, and is general: it is not confined to Germany. A controversial trick habitually practised by our native Socialists is to attribute everything amiss in Germany to the Allies and the Treaty of Versailles; but the definitive indictment of State control quoted above from the Socialization Commission was framed during the Armistice, and before the punitive conditions of the Treaty had been formulated at all; it had nothing whatever to do with them, but was due solely to the necessity of facing the problem

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seriously, forced upon the Socialist Government by the responsibility of power. It is true that later Germany was severely punished and economically crippled under the Treaty; but that again does not apply to Austria, which was helped by the Allies in 1922. The conditions were quite different, but the Austrian Socialists were forced to the same conclusion. Writing of the State war industries, Dr Otto Bauer said :

“ It was impossible to leave them in the hands of the technically and commercially incompetent bureaucratic management. So the wretched condition into which the State war industries had fallen demanded a new form of undertaking, which should keep them in public ownership but give them a commercially flexible management, free from the bureaucratic strait-waistcoat.”

Then there is Sweden, where the conditions were totally different again. Sweden was neutral, had not suffered directly from the war, was unaffected by the Peace Treaty, and entirely free from interference by the Allies. Yet here, too, the authoritative voice of the Socialist Prime Minister has pronounced the same warning. Speaking of socialization in 1925 he said that in order that it should have the full effect desired it was of the greatest importance that the administration problems were rationally solved, and that “ social democracy must be on its guard and see to it that the undertakings obtained intelligent direction, under guarantee against bureaucratic management,” because experience from State undertakings “ justified suspicion that the management of socialized undertakings would be slack, bureaucratic and uneconomic.”

There is no need to labour the matter further. The “ avoidance of bureaucracy ” has become a stock phrase, which finds a place in all modernized Socialist programmes.

The third conclusion follows logically from the first two. It is that the avoidance of bureaucracy requires the exclusion of officialism and political influence by separating the conduct of publicly owned undertakings from the general administration of public affairs. A more efficient form of organization must be substituted, and its essential feature is the application of the business principles that prevail in private enterprise.

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The aim is to secure quick decisions, mobility, appointments and promotions by merit, intelligent direction. In Germany the legal form of organization thought most suitable for the purpose is the commercial company; but whatever form be adopted, the heart of the matter is the directing intelligence, and the essential conditions are full responsibility, a free hand and personal interest. The "commercialization" of existing public undertakings on these lines is the principal development that has taken place. It is rather "denationalization" than socialization.

It remains to be seen how far these attempts to combine the advantages of private initiative with public ownership will succeed; but the mere recognition of the need of retaining the elements of private enterprise constitutes a great change of attitude. In recent years there has been some tendency on the part of Socialists to admit that Capitalism—the economic order based on private ownership and fashioned by private enterprise—has in the past rendered some service, though the popular stock indictment still attributes to it not only no merits but the introduction of all social evils. Even the more enlightened Socialists, however, have hitherto refused to see in it any good elements at all as it is to-day. They have consistently denounced it as finished and done with, obsolete, wholly noxious, to be swept away as speedily and completely as possible. The new view—which extends to Russia—that there is something in it economically valuable and not present in public undertakings makes a right-about turn. Socialism, faced by a practical task, has gone to school to Capitalism to learn how to do it.

So far, the movement is mainly empirical. The position of responsible Socialists is this: they feel that they must increase production, and in order to do so are compelled to assimilate some features of Capitalism. But the theoretical bearing of this concession is not yet fully understood, because they fortify themselves with the "period of transition" consolation and still cling with its aid to the old ideas. Only a beginning has been made. "There runs through the latest Socialistic literature," says Professor Schumacher, "something like the discovery of

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the undertaker.”<sup>1</sup> “Something like,” but not yet quite; because German Socialism is still hypnotized by Marx, who knew nothing of the undertaker. For instance, Dr August Müller says in his book on *Sozialisierung oder Sozialismus?* that “the position of the undertaker as director of the technical process of production is estimated very highly by Marx”; but all that Marx recognized was the function of management, or supervision, which is quite a different matter. He had no conception at all of the real function of the undertaker, or enterpriser, as is apparent from his own analogy of the orchestra and the conductor. The conductor is the manager; but, as I have pointed out elsewhere, behind the conductor is a far more important person, who is entirely ignored by Marx. I mean the composer, without whom there would be nothing for the conductor to conduct or the orchestra to play; and the composer in economic life is the undertaker. Marx took the music for granted; it was there, and had only to be taken over. The whole theory and policy of expropriation, or taking over, stands on this conception and ignores the dynamic or creative element. The absence of the latter in public undertakings is the principal reason why public enterprise is confined to a limited field and cannot compete with private on equal terms—as the Russian experience conclusively proves. Nor is the incentive of gain the most important factor in determining the relative efficiency of the two. Still more important is the performance of function, which is free in private enterprise, but fettered in public. The commercialization of public undertakings is a tacit recognition of this truth, and the ideology of socialization is changing in keeping with it. But to pursue this line of thought any further would take me too far away from the proper subject of this chapter.

The fourth conclusion is that the process of socializing

<sup>1</sup> It is a great pity that this term has been usurped in English by a particular trade with popular associations. Its unfortunate connexion with funerals makes its use in economics, in which it is badly needed, confusing to persons unfamiliar with economic terms. The French version, *entrepreneur*, avoids this, but is open to other objections. The usual English equivalent is “employer,” but this again does not cover the same ground. Perhaps “enterpriser,” which anglicizes the French instead of the German word, is preferable.



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industry, when it is begun in earnest, must develop many different forms of organization, called for by different circumstances, and that the idea of a uniform symmetrical scheme is impracticable and fallacious. This discovery amounts to another radical change of attitude. It is true that Marx adopted the wholly negative position of declining to lay down any plan for the future economic organization of society to replace the existing order, and left that problem to solve itself. But nevertheless Socialists have always had before their mind's eye the picture of some universal ideal system, which would replace the present "anarchical" disorder. The very charge of anarchy in the present, contrasted with the order that is to be, implies the idea of a comprehensive uniform system built on certain general principles. And this was the form that speculation actually took everywhere, when the opportunity appeared to have come after the war. Even before the war we had here Guild Socialism, which is such a scheme. Later, schemes poured out in a stream and all marked by the same features of symmetry and uniformity. The Bolshevist scheme described in Chapter I. was only one among many. They aimed at what the Germans call *Planwirtschaft*, or systematized economy, and though differing in detail were generally designed on the principle of a hierarchy of committees. Now uniformity has gone, and the multiple form is the order of the day. Especially noticeable is acceptance of the mixed organization, in which public and private capital are combined.

That the transformation must be gradual is not a new conclusion; but it has been strongly confirmed by recent experience and has become general, having been driven home by the opposite Russian example, which nobody proposes to follow, not even the Communists in other countries. What they are really aiming at under the immediate direction of Moscow is not the Bolshevist system of economy but the Bolshevist political revolution. Even in Russia the Soviets have become purely political institutions and have long ceased to exercise any economic functions.

Another conclusion, allied to gradualness, but not previously recognized, is that there must be no interruption of production

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in the process of changing-over. This implies consent and compensation, which is also bound up with gradualness. If industries are socialized one by one it is obvious that compensation must be paid; because, if not, the owners of those that are left will not wait quietly to be deprived of their property but will remove it elsewhere, or even destroy it, rather than submit to robbery.

All this means that Marxism has been superseded. The inevitable and complete transformation of the economic apparatus required and predicted by the class-war theory of history has been indefinitely postponed, if not wholly abandoned. It is incompatible with the conclusions from experience enumerated above. Economic evolution has not proceeded on the lines laid down by that theory and is not tending in that direction. This is at least partially reflected in the new and revised programmes adopted by various Socialist parties. I give two of them—the German and the Swedish—in the Appendix. The former is the more important of the two because of the general position of Germany and the leadership it has so long held in the Socialist Movement. It also reflects more clearly the changed situation, which is still better seen in explanatory comments by leading Socialists on the programme, and published with it.

In 1891 the German Social Democratic Party adopted an official programme, which served as a model for Socialists in most other countries. It was known as the *Erfurt Programme* because it was settled at the congress held in that year at Erfurt.<sup>1</sup> Down to 1921 it remained unaltered, though a strong section of the party had for many years demanded revision of the preamble, on the ground that it did not correspond with the facts. In 1921, at the congress held at Gorlitz in that year, some modifications were introduced in consequence of the new situation, and in September 1925 a new programme was formally adopted at the Heidelberg Congress. An interesting fact is that it was drafted by Karl Kautsky, who had also drafted its predecessor in 1891 and has since been always regarded as the most authoritative spokesman of German Socialism on the theoretical side.

<sup>1</sup> See *The Socialist Movement*, Part I., pp. 57-61.

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The changes are numerous and instructive, but I can refer only to the more important. Some have naturally followed on the changed situation created by the political revolution in Germany, as Dr Kautsky has pointed out in an explanatory memorandum. What lay in the far distance at the time of the *Erfurt Programme* has now been brought within the sphere of immediate action. Consequently the programme is less concerned with pure theory and more with practical matters, though the ultimate aim remains the same.

But the changes go a good deal beyond that. The preliminary statement of principles has undergone considerable modification. It is still Marxian, but far less dogmatic, and some essential features of the Marxian theory have disappeared. The unqualified assertion that economic development leads to the destruction of small-scale business with the certainty of a natural law has given place to the much milder statement that the large business has increased in strength through the internal laws of economic development, has pressed back the small business and diminished its social importance. This implies a recognition—though not a frank one—of the fact that the small business has not disappeared, either in industry, commerce or agriculture, and shows no sign of disappearing, as it ought to do, according to the Marxian prediction.

More important is the elimination from the new programme of the theory of increasing misery, which was one of the essential features of "scientific Socialism." It has long been a difficulty and a cause of strife within the party, because misery has palpably not increased. Now it has been replaced by the statement that tendencies towards it are constantly at work in Capitalism and are prevented from effecting it only by a constant struggle. This is at best only a half-truth, because the net result is a progressive improvement of conditions, due not merely to the efforts of Trade Unionism and social legislation, but also to the industrial achievements of Capitalism itself in creating and cheapening all sorts of comforts and conveniences. However, the disappearance of increasing misery from the programme is something, and a great triumph for the revisionists.

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Another inroad into the old theory of two classes only is the recognition of the rise of a new middle class—new, that is to say, in its modern development, not in its origin. It consists of brain-workers—professional men, artists, Civil Servants, journalists, teachers, technicians, officials in industrial and trading concerns. Dr Kautsky draws particular attention to this class, and points out that between 1882 and 1907 its relative share in the total number of occupied persons in Germany increased by 176 per cent., whereas that of wage-earners increased by less than 10 per cent., and that of independent workers fell by 33 per cent. But he regards the new middle class with an optimistic eye from his own point of view, and thinks that, so far from forming a buffer between the bourgeoisie and the proletariat, they are themselves drawn into the class war, with the majority of them on the side of the proletariat.

The *Heidelberg Programme* says of them that with the increase in their number the possibility of rising to “privileged positions” constantly diminishes and their interests chime more and more with those of the other workers. This may be true of Germany, but it certainly is not of England and America. One of the most remarkable—and least remarked—phenomena in industrial disputes is the constant tendency of the office staff to side with the management and carry on the works, or at least protect them from damage; and the defeat of general strikes by the ready co-operation of the middle classes is an historical fact repeatedly recorded.

New, too, is the recognition of combines and trusts and of the power of finance capital, which has in recent years come so prominently into the foreground of the indictment of Capitalism.

On the other hand, the theory of the class war is maintained and the antagonism is asserted to be growing more acute and embittered, which is difficult to reconcile with the institution of joint industrial councils and other like institutions.

There are other changes in the new statement of principles, but the second part of the programme, which lays down the practical policy, is the most changed. It reflects more fully the new situation. Out of eight sections, only one deals with economic policy, which is the peculiar subject-matter of



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Socialism—and the nine items it contains are both vague and comparatively mild.

With regard to the central question of public versus private ownership, the only things mentioned are land, minerals and natural power resources; these are to be “withdrawn from capitalist exploitation and transferred to the service of the community.” In the preamble the expression is still “means of production,” but the old programme was much more explicit; it named land, mines and pits, raw materials, tools, machines and means of transport. The change to the smaller objective is in conformity with the policy of gradual socialization and may be taken to signify its definitive adoption.

The other items in the economic section of the programme are the extension of industrial (Whitley) councils so as to give the workmen (and trade unions) a voice in the organization; State control of *Kartells* and trusts; promotion of increased production (by what means is not stated); promotion of land settlement; reduction of tariffs down to free trade; development of publicly owned works, but with avoidance of bureaucracy (also emphasized in another section); promotion of non-profit co-operative and public utility undertakings; promotion of public utility housing and rent-law reform.

A good deal of this programme has no specific element of Socialism in it, and might very well be supported by other parties. That is still more the case with the other sections, which deal with the constitution, administration, law and justice, social questions, education, finance and taxation, and foreign policy. The most actual and important is the social section, which includes a number of familiar social reform measures, some of a quite general character, others bearing particularly on Trade Unionism.

A rather curious omission is the absence of any mention of the right of free speech and of meetings. The explanation that these are already granted is insufficient because other rights which are already enjoyed—such as the right of combination and of strikes—are included, though they are much less likely to be taken away. Do the Social Democrats foresee the possibility of themselves suppressing free speech?

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As a whole the programme has more to do with general politics and social reform than with Socialism proper. It reflects the waning of Marxism, and the more plainly because of the strained argument that the class war is more embittered than ever in spite of—or because of—such recent developments as complete democracy and political equality, social reforms, the raised status of wage-earners; joint industrial councils, superior controlling councils, differential taxation, etc. Dr Kautsky himself admits, in his explanatory commentary, that the forms of class conflict have become progressively milder with the advance of democracy, but asserts at the same time that the antagonism is all the more acute, and on the next page that it may take the wildest forms. He means that the claims of wage-earners rise with their fulfilment and lead to resistance. It is true that the claims rise, but the resistance is much less than it used to be, and the antagonism is greatly tempered by the institutions already mentioned, which bring the parties together on a footing of equality. The psychology of the movement is to-day entirely different from that of the Marxian class war, which rested on the theory of increasing misery. That was the psychology of desperation, which does breed revolution, and did breed it in Russia, Germany and Austria, through the increasing misery of the war. To-day it is the psychology of aspiration, arising from diminishing misery, which never breeds revolution, as I have explained elsewhere.<sup>1</sup> Improving conditions—improvement is admitted by Dr Kautsky—do not drive men to violence.

For the rest, he endorses all the conclusions enumerated above. I have already quoted his dictum that the State undertaking in its old form has everywhere failed and no longer comes into consideration. "State undertakings," he says, "must be organized on commercial principles." He also repudiates uniformity and says that the forms of organization will be very varied. He derides the conception of the future society—which is the conception of Communism—as "a sort of barracks socialism, in which everyone from the highest office downwards is assigned his occupation by order, and

<sup>1</sup> *The Socialist Movement*, Part II., pp. 168-173.

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receives his allotted portion of food, clothing and housing." Further, he insists that production must not be interrupted and that consequently "capitalist production will continue undisturbed in many fields." The one point he fails to emphasize is that production must be increased; he merely assumes that it will be.

The changed position and the decline of Marxism is further signalized in an interesting manner, which will be appreciated by students of the history of Socialism, by the resuscitation of Lassalle<sup>1</sup> in connexion with the *Heidelberg Programme*. The editor of the official edition, Paul Kampffmeyer, in some concluding observations brings in Lassalle and places him conspicuously on the stage by the side of Marx and Engels. This takes German Socialism back for half-a-century, to the *Gotha Programme* of 1875, in which a compromise was effected between the followers of Marx and Lassalle, who had been vehemently opposed for years. That programme contained only a watery kind of Marxism and was sharply criticized by Marx. It did not postulate the class war or the theory of increasing misery, and on the other hand it contained Lassalle's policy of a peaceful and voluntary economic transformation of society by the development of free productive workmen's associations with State assistance. Later, as Marxism gained sway in the councils of the party, Lassalle faded out and there was not a trace of him left in the *Erfurt Programme*. His reappearance to-day in connexion with the new programme is, therefore, highly significant. It is one of many signs of a tendency among Socialists to weaken on Marx and to find more in his predecessors than they have previously thought since Engels hypnotized them with the claims of "scientific Socialism."

The Swedish programme runs on the same lines as the German one, and the only point calling for particular notice is the very detailed policy laid down for the knotty problem of the land, on which the Swedish Socialists have always laid great stress. It calls for the expropriation of large estates only, in conformity with the present tendency to confine socialization

<sup>1</sup> See *The Socialist Movement*, Part I., pp. 51-57.

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—at least at first—to large concerns, and it is in general a sort of compromise between the existing state of things and complete State ownership. The cultivation of the land, by the by, supplies an interesting but little noticed lesson on the question of public versus private enterprise. It has never yet occurred to anyone that the extensive lands already owned by the State should be cultivated by it; they are always let to farmers.



## CHAPTER X

### THE REAL MOVEMENTS OF TO-DAY

SOCIALISM, put to the test of experiments as never before, has totally failed to realize expectations. In Russia, where it started full steam ahead, it brought the nation to ruin and compelled a retreat, which is still going on, against the will of those who control the affairs of that country. The explanation that there was too much of it all at once seems to me both weak and at variance with the facts. If the principle were sound its over-application might have some ill effects, but could not cause such a complete economic collapse; and subsequent experience has shown that it is the principle itself that is at fault—the principle, namely, of State ownership and control to the exclusion of private enterprise. Where it is removed and place given to private enterprise there is improvement; where it is retained there is failure.

Elsewhere the alternative policy of gradual socialization stuck fast at the outset through the inherent difficulties of the problem and the lack of an acceptable formula for solving it. But it must not be supposed that because Socialists failed, in the hour of their political success, to get on with socialization, therefore nothing has been done and no change has taken place in social-economic conditions. On the contrary, there have been large changes and the process of evolution in this sphere is still going on in several directions. The effect of the war has been to quicken up existing movements and stimulate new ones. They are real and active, and contain large potentialities. They are working towards a new order of society, which will not take the form of Socialism as presented by Socialists, though there will be in it a limited element of Socialism.

These movements are manifold, and they react on one another. They are not confined to the economic field; they are active also in the political and the intellectual. I can deal with them here only in a very summary fashion; but to comprehend the direction in which our civilization is moving in this tumultuous time it is necessary to take a wide view beyond the field of

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inquiry covered in the preceding chapters. For instance, speculation about the course of social and economic change with reference to Capitalism and Socialism must take account of the United States, where the former is most highly developed and the latter has least hold. To ignore this fact and to hold as a general proposition that the one must lead, and is leading, to the other because of the breakdown of Capitalism is mere sophistry. The American contribution to the solution of the problems created by Capitalism cannot be ignored.

The changes to which I refer may be conveniently classified under the following heads: (1) political democracy; (2) social reform; (3) industrial democracy; (4) scientific organization or "rationalization" of industry; (5) capitalist democracy. I might name others, but these will suffice for my purpose, which is not to enter into details at any length, but only to indicate broadly the direction in which things are actually moving and the bearing of the more important developments, with special reference to the newer elements, which vary in different countries. I shall select for illustration those instances which most fully display particular movements.

(1) *Political Democracy*.—The advance of political democracy has two general effects. It influences legislation, which is its primary object; but it has also a psychological effect, which is more subtle, farther-reaching and more lasting. The consciousness of newly won political rights reacts on those to whom they have been granted and stimulates them to assert themselves in other ways than through legislation. It raises their self-respect, which is a good thing, when accompanied by a raised sense of responsibility; but since this generally lags behind there is a period in which a large extension of political rights is liable to arouse a disposition to call for other changes which cannot be so quickly and easily effected. This tendency is stimulated by all who advocate large changes; and the result is an attempt to go too fast, which leads in turn to reaction.

That there has been something of the kind in Europe is obvious; but in view of the abnormal excitement caused by the war, the chaotic conditions left by it in many countries, and the wave of revolutionary passion that swept over the people, it

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appears to me that the advance of democracy, which was greatest in Central Europe, had on the whole rather a steadying than a disturbing effect. It was accompanied by a greater sense of responsibility than might have been expected in the circumstances and one that recoiled from excesses. It is evident that if the only alternative to the old political order had been Bolshevism it would have been established in the new republics, and at one time the issue was doubtful; but they were saved by democracy and without civil war. Even so it was an enormous change, a change so great as to be inconceivable, at least in Germany, until it took place. A German Socialist, writing to me soon after the war had begun, said confidently that, whatever came of it, there would be no revolution in Germany. In other countries the magnitude of the change involved in the disappearance of those empires seems hardly yet to be realized. It was a great triumph for the Socialists, who had always demanded democracy, and it opened the door to many other changes. They fell short of Socialism, but are numerous and weighty. In spite of some drawbacks, the effect on the whole seems to me to be good, and I believe this will become more evident as the turbulent aftermath of the war passes away and the world settles down again to calmer conditions and more rational conduct.

The advance of democracy has not, of course, been confined to Central Europe; but elsewhere, as in Great Britain, the change, though large, has not been so great. That it has weaknesses, and in particular is accompanied by the risk of some instability, cannot be denied; the instability of governments since the war is conspicuous. The exceptions are Russia, where a despotic oligarchy rules by a repressive system of espionage and force; and Italy, where a commanding personality has superimposed a kind of dictatorship on a constitutional and democratic parliamentary system. Neither can last indefinitely, or be regarded as an acceptable model for other countries; for they run counter to the inevitable march of liberty, of which democracy is the political expression. But the misuse of liberty leads to anarchy, and the political instability that has followed the war has come near to anarchy in some countries. It is due to

the endless division of opinions and the multiplication of parties. The only cure is rational agreement, based on a real concern for the common good and realization of the truth, on the one hand, that change is inevitable and, on the other, that it must be gradual.

(2) *Social Reform*.—It is in the field of social reform that the most general, though not the largest, changes have taken place and are still proceeding. The expression is commonly applied to legislative measures intended to improve the conditions of life for the poorer classes and combat social evils in general. It is not quite synonymous with "labour laws," because it covers other things; but industrial conditions and relations form the principal sphere of activity for social reform on the economic side, and the changes to which I refer are concerned with them. Such legislation is no new thing, nor can any political party or government claim a monopoly of it. But it has received a great impetus since the war—partly through conditions created during the war, partly through the extension of political democracy noted above, partly through the influence of the International Labour Office, set up by the League of Nations; and it has a particular relation to Socialism.

The object of social reform is to mitigate or remove particular evils and abuses, which Socialists propose to abolish *en bloc*, along with all others, by their ideal system. It is therefore an alternative method of achieving the same object, and there is a certain opposition between them. The opposition is absolute between the policy of social reform and the old theory of Marxian Socialism, which predicated the revolutionary overthrow of the existing order through increasing misery and class war. Social reform diminishes misery, and should therefore tend in the opposite direction. As I have already explained, that view, which prevailed for a time, has been given up in favour of the theory that, after all, improved conditions, which are admitted, tend to the revolutionary end by strengthening the proletariat and intensifying the class war. That is the theory put forward in the *Heidelberg Programme*. It leaves the Socialists free to advocate social reform, which accordingly occupies a large space in their programmes.

Nevertheless a certain antagonism remains. These measures



are held to be mere tinkering at the problem, for which the only real solution is Socialism. As aids to that consummation and weapons against the bourgeoisie they are allowed their place, but as alternatives to Socialism they are denounced as bitterly as ever. The object sought in them from the Socialist side is not so much to benefit the proletariat as to injure the bourgeoisie. This is evident from the determined opposition to measures which may haply benefit both. Socialists have done what ardent reformers usually do: they have substituted the means for the end, and are more concerned to attack Capitalism than to benefit the community, just as prohibitionists have substituted the nominal abolition of the liquor trade by law for the real abolition of intemperance. The community, however, keeps the end in view; it wants improvements and judges the means by its success in effecting them.

For this reason the calculation of the Socialists will probably turn out to be mistaken. In spite of their theory, the universal experience of mankind shows that worsening conditions cause discontent and improving ones produce at least temporary satisfaction, until the standard rises again. Discontent is, in fact, the child of unsatisfied desire. A story told in Dean Ramsay's *Reminiscences of Scottish Life and Character* is typical. An inveterate grumbler and agitator, named Davy Armstrong, left his native village, and was met many years afterwards by a former friend and fellow-agitator, who began the old song; but Davy declined to respond. His friend perceived with astonishment that he had become a rank Tory, and wanted to know the reason. "I've a coo [cow] now," said Davy. I commend this anecdote to the consideration of Socialists who think that improving conditions foster revolutionary ardour. The rulers of Russia have cause to study the psychology of discontent as threatening themselves.

The question is whether the improvement of conditions can continue. There is no reason why it should not, provided that the economic basis is not destroyed by overhasty action. Hitherto the movement has been progressive and it is now extremely active. It stands in more danger from forcing the pace, which leads to reaction, than from stagnation.

The conditions in regard to which most advance has been made include the following: hours of work, and particularly the eight-hours day; the minimum age of employment; night work; weekly rest; dangerous trades; social insurance. All these have been taken up by the International Labour Office for the purpose of securing, as far as possible, uniform regulations by international convention, which is obviously a most important condition for further advance. They are all primarily of a protective character and as such in a direct line with the earliest legislation of the kind. It is a more obvious social duty to obtain the negative benefit of statutory protection of the weak from injurious conditions, or from the consequences of misfortune, than to secure positive benefits for all; and consequently the former always comes first when legislation is taken up in any country, and remains ahead of the latter, though leading to it.

Two items out of the foregoing list call for particular notice. They are the eight-hours day and social insurance. The statutory regulation of hours is the oldest of all modern reform movements, and it has proceeded steadily, though slowly, from one point to another and from one country to another. For many years it was applied only to women and children, though indirectly it affected men employed in industries dependent on women's labour. This prepared the way for its direct application to men, which was also promoted by a simultaneous movement for the reduction of hours by voluntary agreement. In all this Great Britain led the way, but as other countries became industrialized they began to follow in her steps. It may be said that the most general and constant of all labour demands is that for reduced hours of work, with the sole exception—if indeed it be an exception—of higher pay.

The eight-hours day is the modern consummation of this general movement. It was one of the most cherished ideals of organized labour in England a hundred years ago, and it has cropped up at intervals ever since. It was first imposed by law in 1888 for certain categories of men employed by the Government of the United States, but the statutory eight-hours day made no further progress there before the war. Its earliest

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application to industry was the Coal Mines Regulation Act of 1908 in Great Britain, which may be ascribed to the General Election of 1906, when the miners returned 16 representatives of their own to Parliament and the Labour Party came into being, with 29 members. By that time the general statutory eight-hours day had long been a standing item in Socialist programmes, and in Sweden attempts were made to introduce it, but without success. The only other country to follow the British example before the war was France, where a similar Act for miners was passed in 1913.

During the war the question was taken up in several countries and afterwards the International Labour Office placed it in the forefront of their programme. By May 1926 the Washington Hours Convention had been adopted and became law in eleven countries, and was in a half-way stage in eighteen others. A Special Conference held in London in the previous March, and attended by representatives of Belgium, Germany, France, Great Britain and Italy, is understood to have removed some difficulties standing in the way of complete acceptance by Great Britain and Germany. The eight-hours day has, in short, become the normal working day in industrial countries; and this constitutes a great positive advance. In the United States, where there is no uniform legislation, and extreme variations in the hours of work still prevail, the tendency is all in the same direction, though the Government is not a party to the International Labour Office.

This extremely rapid progress in the reduction of hours has had some very interesting effects. It has raised in an acute form the question of the relation of hours of work to economic efficiency. Primarily the reduction of hours is a protective health measure, except in so far as it may be used to raise earnings by overtime at higher rates of pay; and it was thought to entail some economic loss as a matter of course. It was resisted on that ground. But already before the war experiments by individual employers and the study of industrial fatigue, begun in America and continued in England, had thrown doubt upon this assumption and opened up a new field of inquiry. Then came the great strain upon munition workers everywhere

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during the war, drawing general attention to the question and stimulating more exact study. It was found that reduction of hours did not necessarily diminish output, and in some cases even increased it, by lessening fatigue. This discovery was eagerly taken up and made a strong argument for the general adoption of the eight-hours day, which found a place in the Treaty of Peace, with the result already stated.

Subsequent experience has not altogether endorsed the rather hasty generalization drawn during this period of excitement. A great deal of systematic research by exact observation and experiment, chiefly in Great Britain and America, has been devoted to the problem, which turns out to be very much more complex than it was at one time assumed to be. The result depends on many factors, which vary indefinitely, and especially on the type of work. Some broad conclusions may, however, be drawn.

The careful attention paid on economic grounds to the well-being of the workers, which is involved in these developments and in others associated with them, such as rest pauses and welfare work, constitutes a new departure in industrial relations, and there is no doubt at all that it is beneficial, physically, morally and intellectually. It has also had another important effect in stimulating technical improvements in equipment, organization and management. American industry has taken up this line of advance with great energy and success, and its leading position to-day in the industrial world owes much to the stimulus arising from reduced hours of work. But the re-organization of industry properly falls under another head, and is mentioned here in passing only because of its close connexion with the reduction of hours, which depends very much upon it for successful working. That is the real key to the great dispute in the British mining industry.

At the same time it must be recognized that there is an economic limit to the application of the eight-hours day or the forty-eight-hours week, which is a variant better fitted to some conditions. Experience in several countries has proved that its rigid application is impracticable and that exceptions must be allowed. That this is not due to the incompetence or ill-will of



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Capitalist employers—who, by the way, first initiated the eight-hours day by voluntary action—is proved by the fact that the impossibility of rigid application is nowhere more fully admitted than in the Russian State industries, and nowhere are larger exceptions allowed in practice.

In Sweden, where the Eight Hours Act of 1919 was provisional, and for five years only, the question came up for revision in 1926 and formed the subject of a special inquiry by the Social Board. The report of the Board throws an interesting light on the problem, and shows once more how complicated it is. It was found that the greatest difficulties do not arise in directly productive work, which is that chiefly contemplated, but in the associated work of warehousing and dispatching goods, in which there is little scope for speeding up and intensifying work. This experience is in keeping with that reported in other countries, where the eight-hours day has necessitated a large increase of the unproductive staff. The general moral is that change must not go on too fast, and the recent permissive return to longer hours in Italy and in British coal mines confirms it.

Social insurance is another protective institution, which has an economic side and has undergone an immense development in recent times. It provides protection against the consequences of sickness, accident, invalidity, old age, death and, lastly, unemployment. Beginning in a small way, with voluntary funds established by trade unions and friendly societies, it has developed into a vast system established by law. In this development Germany took the lead by the introduction of a State scheme of compulsory sickness insurance in 1883, followed by one against accident in the next year, and later by a third against old age and invalidity. This legislation was at first strongly opposed by the Socialists, but its success compelled them to change their attitude, and in 1902 they formally recognized that "by means of insurance general misfortunes might be met and their worst economic consequences mitigated," although they were careful to point out that the existing law in no wise answered to the demands of the working classes. Since then they have in general advocated its extension and reform,

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but they have never been fond of it, and have contributed little but rather barren criticism to its development.

Other countries were slow to follow the example of Germany ; but social insurance gradually extended, and a great step was taken when in 1911 Great Britain adopted the National Health Insurance scheme, to which unemployment was added. The latter was the first experiment in State-organized compulsory insurance against unemployment on a large scale. There had previously been a good many local schemes organized by public authorities on a voluntary basis. They were started in Switzerland in 1893, but did not attain any size or importance there, and one attempt at a compulsory scheme made at St Gall in 1895 was unsuccessful. The first considerable advance took place in Belgium, where in 1901 the town of Ghent inaugurated a voluntary public scheme, which proved successful, spread rapidly and became famous as the Ghent System. It was based on the sound principle of encouraging self-help by assisting voluntary provision against unemployment with augmentation of benefits from public funds, and was adopted in several countries, where it is still in force.

Since the war social insurance of all kinds has been greatly extended and has become a permanent feature of national life in an increasing number of countries. The one outstanding exception is the United States, where, except for compensation for accidents, it is still in the voluntary stage. In 1925 compulsory sickness insurance had been established in twenty countries, and was under consideration in several others. In twelve out of the twenty, including Germany, Great Britain, Switzerland and Russia, it applies to workers in general ; in the others to industry and commerce, or industry only. The countries which had legislation pending included France, Italy, Sweden, Belgium and Australia. Insurance against old age, invalidity and premature death is still more widely extended. It has been adopted more or less completely in twenty-six countries, with the variation that in some of them—including Great Britain, British Dominions, Denmark and Norway—non-contributory pensions take the place of insurance against old age, and in some also for invalidity and for widows.

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Unemployment insurance occupies a special position on account of its comparative novelty and of the extraordinary prevalence of unemployment since the war, which has forced it to the forefront. It is consequently in a state of active but uncertain and variable development. Systems have been adopted in sixteen countries, including Russia, and in seven of them—namely, Austria, Great Britain, Irish Free State, Italy, Poland, Queensland and Russia—the system is compulsory. Other countries are hovering in uncertainty on the brink. The system is most complete in Great Britain, where the scope of insurance introduced in 1911 was extended in 1916 and 1920.

These few summary facts reveal social insurance as a most extensive movement in a state of extremely active development. It has advanced rapidly both from one country to another and also from one object to another. In addition to unemployment, it has recently been extended to include widowhood and maternity, as a special form of sickness or disability. One cannot help wondering if it has not been moving too fast. It has become extremely complicated, chaotically varied in detail and bristling with unsolved problems, which have not received the attention they require for sound treatment. That it has been of great material benefit to large sections of the population is incontestable and that it is an essentially sound means of meeting real needs is evident from the fact that it has in every case originated in spontaneous voluntary efforts; but compulsory imposition and extension introduce other elements, and they have been carried out without the guidance of any recognized principle. Hence various defects and drawbacks and no little waste. There is a growing demand for unification and simplification of the systems, which vary widely and irrationally. The whole problem needs elucidation by a thorough technical examination in the light of experience, with a view to laying down guiding principles. It would be a great pity if the method of insurance were discredited and suffered a set-back through misapplication or miscalculation of the cost.

One other modern development of the protective order remains to be mentioned. This is the minimum wage. The term is loosely used in different senses and applied to different

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conditions, with the usual result of confused ideas. Real distinctions are concealed under a verbal identity and the grounds for promoting one purpose are tacitly transferred to a quite different one. From being a protective measure for particular classes of workers in a peculiarly weak position the minimum wage has become a general instrument for equalizing and then for raising rates of pay. Like the other measures described, it was applied before the war, but underwent a great development after it.

The subject was first publicly taken up in Great Britain in 1889, when a Select Committee of the House of Lords carried out an inquiry into "sweated trades," which established the fact that sweating—that is, the imposition of excessively low rates of pay on helpless persons by unscrupulous employers—did exist, and made some recommendations for checking it. This was followed by a Board of Trade inquiry into certain industries in which women are particularly employed. In 1907 and 1908 Bills were introduced into the House of Commons for dealing with sweated industries, and particularly those in which home-work by women prevailed, by means of wages boards, formed on the principle of joint and equal representation of employers and employed with an independent chairman. These ideas were approved by a Select Committee of the House of Commons, and in 1909 an Act was passed for giving effect to them and setting up boards to fix minimum rates of pay in tailoring, lace, net and chain making, with power to the Board of Trade to extend the system to other sweated trades.

This was the only effective measure of this kind before the war, though some attempt has been made in the same direction in France by a decree issued in 1899. The English Act met with general approval, because it had been proved that the home-workers employed in the industries concerned—mainly women—were extremely ill-paid and so situated as to be unable to stand up for themselves. The object of the measure was to secure a subsistence standard for them. But the movement did not long remain in that stage. In 1912 a Minimum Wage Act for Coal Mines was passed in consequence of a general coal strike. It introduced an entirely new principle, because there was no pretence that mining was a sweated industry or



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that miners were an unorganized and helpless class, like seamstresses. On the contrary, they earned more and were more strongly organized, as they had just proved, than most workmen. The circumstance that weighed with the public, and also with the Government, was that the dispute, or at any rate the argument, turned principally on the question of "abnormal places"—that is, the occasional occurrence of exceptional natural conditions which made it impossible for a miner to earn what he normally could. The establishment of a minimum levelled up such cases to a certain standard and so far turned piece-rates into time-wages.

In 1918, in consequence of certain developments in war industries, the same principle was extended to other workers by a new Act, which empowered the Board of Trade to apply the system to non-sweated trades, and provided for a minimum time-rate to be paid to piece-workers in order to bring their earnings up to the standard of time-workers. Immediately after the war an attempt was made on behalf of the trade unions to secure the legal establishment of a universal minimum wage sufficient to provide a "reasonable standard of living" as a temporary step towards a higher all-round standard. The Government so far acceded to this demand as to extend the operation of the Trade Boards Acts to many additional industries and to propose a commission of inquiry into the question of a universal minimum wage. All this took place under the prevailing excitement and the current delusion that the conclusion of the war would inaugurate a period of unheard-of prosperity, in which everyone would be much better off than before. The great depression of 1920-1921, however, had a sobering effect and aroused misgivings about the lavish application of the Trade Boards Acts. So a committee of inquiry into their working was appointed. The outcome of the inquiry was to establish their beneficial effects on sweating but to check the too indiscriminate application to unsuitable trades that had been going on.

In other countries minimum-wage legislation has always begun in the same way, as an anti-sweating measure intended to secure a subsistence wage. The only ones which had

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introduced legislation of this kind before the war were France and Australia. In the latter the movement, which had begun in Victoria with the establishment of wages boards for certain industries in 1896, had already passed into an entirely different stage before the war and had become associated with industrial disputes and compulsory arbitration. The principle of the subsistence wage fixed by law for special cases was transformed into the principle of the general "living wage" fixed by arbitration.

The general extension of the minimum-wage principle during and since the war is in most countries confined to the first form. That is the case in Austria, France, Norway, Czechoslovakia, Switzerland, several American states and Canada. But there is a tendency towards further development, as in Australia and Great Britain. In Germany, where trade committees had been set up for home-workers in 1911, but without power to impose awards, they were enabled to do so by a law passed in June 1923, in cases where the remuneration was "obviously inadequate," and to fix minimum wages or to make agreements concluded elsewhere in the same trades generally binding. The practice of making particular agreements or awards generally binding is another new development which complicates the subject. It is applied to conciliation proceedings in general by the present German law and comes very near to compulsory arbitration. There has, however, been some reaction against it, and the Ministry of Labour has laid it down as a condition for declaring a particular award generally binding that it must be required by some important public interests.

It will be seen that the whole question is in a state of flux; but broadly the tendency to push the compulsory minimum wage too far has caused a reaction, partly on the ground that it encroaches too much on freedom and partly because the minimum is apt to become the maximum.

(3) *Industrial Democracy*.—The measures just discussed under the head of social reform are of a negative character, at least in their origin, as I have explained—that is to say, they were introduced to check admitted and specified evils and to save particular sections of the population from sinking, through

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weakness or misfortune, without destroying their independence. The principle has met with increasing public approval and has justified itself not only on humanitarian but also on economic grounds; nor would anyone wish to go back to former conditions. But it has only a limited application, and when it is strained to cover other conditions and classes not in need of such help it serves neither a humanitarian nor an economic purpose, and has the moral disadvantage of weakening effort. What may be called the "lifebuoy" principle is not fitted to secure a positive and general advancement of the status of wage-earners. That requires a different instrument, and it is here that industrial democracy comes in.

The term is comparatively recent and its meaning still very vague. It has come into general use only since the war, and has received many interpretations. But its broad meaning is clear enough. It represents a step in the progress of industrial evolution towards the satisfaction of a long-standing claim; one sometimes articulate, but more often instinctive—the claim of the employed to be treated as what they are—namely, co-workers with the employers, and not merely live tools. It recognizes their right to be heard on terms of equality in regard to the conduct of a business, so far as their interests are affected. This is a real advance with a long history behind it, the history, in fact, of Trade Unionism. One can trace the chief successive steps—first combination, then the legal right to combine, the building-up of the unions, their "recognition" by employers, collective contracts, occasional negotiations, standing machinery for joint conferences on a footing of equality.

The movement had reached that point before the war, but only in Great Britain and France, where legal expression had to some extent been given to the principle; in France by the Conciliation and Arbitration Act of 1892 and the *Conseils de Prud'hommes* Act of 1907; in Great Britain by the Conciliation Act of 1896. In both cases the procedure was voluntary and in France the practical effects were small.

In no part of industrial life has so great a change been effected by the war. Not only the practical and legal aspects of the question have been altered, but the whole atmosphere

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has changed. This is reflected in the general use of the term "industrial democracy" to signify a new order of relations between employers and employed, whatever specific form it may take. A striking proof of the place taken by the idea in economic thought and industrial politics is its official recognition in the appointment by the Swedish Government in 1920 of a Commission of Inquiry into "Industrial Democracy." The idea has spread far and wide since the war, and attempts to put it into practice have followed in one country after another. The main reason for the advance is that the need of industrial peace, which brought about the pre-war development mentioned above, particularly in Great Britain, has been reinforced by the economic situation left by the war. The necessity of production and the impossibility of securing it in an atmosphere of perpetual strife have been brought home to employers, statesmen and all intelligent persons as never before, and have aroused a corresponding desire for peace. The prevention of disputes by reason has become an ideal in places where it was never entertained before. Further experience during the war in all belligerent countries, where the necessity of war production drew men together and gave the wage-earners a degree of recognition never accorded them before, showed how it could be done. It was as though a door had been opened and men had stepped into a new room. To the need of preventing strife has been added recognition of the positive benefits of co-operation.

The change has naturally been greatest where there had previously been least movement in that direction; it has been least in Great Britain and in France, where it was previously most advanced. The development in the former has proceeded on the old lines, but has become more general and more systematic, in the form of Whitley Councils. In France the situation was different because of the devastated areas. The task of restoration was a national one and took the form of a patriotic duty, which united men voluntarily in a common effort. There has been no formal change, but the happy knack of the French for epigrammatic expression has provided the world with a formula for the after-war economic ideal which involves the necessary elements of co-operation and is of general application



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—"Maximum production in minimum working time for maximum pay—maximum equipment to produce maximum output at minimum cost of production." This formula, it is to be noted, emanated from the trade unions.

Of the other countries two stand out as deserving of particular notice in this connexion, partly because of their industrial importance, partly because of the great change involved in the idea of industrial democracy in them. I refer to Germany and the United States. The conditions differ as widely as possible in these two cases and the character of the movement differs accordingly. In Germany, plunged into the deepest economic distress, but accustomed to order and authority, it has taken the most complete and systematic form; in America, unscathed by war and highly prosperous, it has remained wholly voluntary and is characteristically distinguished by initiative and variety. Between these two extremes all other examples can find a place. I can give only a brief outline of the movement in each.

In Germany the formation of committees representing workmen in particular establishments is not altogether new. It was originally introduced at the instance of benevolent employers, and as far back as 1891 found legal sanction in the Workmen's Protection Act, which authorized the voluntary formation of such committees. It is quite possible that the Russian Socialists, including Lenin, derived the germ of the Soviet idea from this move in Germany. It recognized workmen's representation, but the practical effect depended entirely on the attitude of the employers and it was not great. A further step was taken after the severe depression which set in at the beginning of the present century. An Act passed in 1905 made the establishment of workmen's committees, with certain strictly limited functions, compulsory in Prussian coal mines employing 100 men, and this was extended to other parts of the empire. But there was in these institutions no recognition of the principle of equal representation; nor was any further progress made towards it before the war.

The industrial necessities of the war brought about a great change of relations, expressed in the Patriotic Aid Service law

of December 1916, which made workmen's committees compulsory, gave them enlarged powers and set up mixed arbitration boards. The spirit embodied in these arrangements grew during the rest of the war and at its conclusion employers and employed felt themselves in the position of co-operators. This took effect in a striking manner within a few days of the revolution. Important employers' associations approached the trade unions and on 15th November 1918 concluded an agreement with them for a Joint Industrial Association, which formally granted the right of the employed to take part in the conduct of industry. This agreement, which was officially recognized by the Provisional Government, was a much more formal and significant act than the analogous creation in Great Britain of the National Alliance of Employers and Employed in 1917; it was superseded later, but it provided a basis for the important legislation that followed in a series of steps.<sup>1</sup>

The first was a Ministerial Order, issued on 23rd December 1918, confirming the idea of the Joint Association and to some extent defining its functions. The second was the "anchoring" of the institution of Works Councils in the Constitution (Article 165), adopted on 11th August 1919. The third was the passing of the Works Councils Act on 4th February 1920, to carry out Article 165. It is hardly necessary to say that these measures, which decisively changed the legal, economic and social status of wage-earners, were not shaped and passed without much debate and opposition from various quarters; but the weight of opinion was in favour of the principles they represented. The most vehement opposition came from the revolutionary soldiers' and workers' councils, which had been set up in October and had spread after the revolution, as related in Chapter III.<sup>2</sup> These bodies had nothing to do with the works councils contemplated by the movement just described. They were formed on the Bolshevik model and their primary aim was to establish a Bolshevik political system. They carried on a violent struggle against every constitutional

<sup>1</sup> See Feig and Sitzlers' *Betriebsrätegesetz* (Franz Vahlen) and Marcel Berthelot's *Works Councils in Germany* (International Labour Office).

<sup>2</sup> See p. 91.

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policy, and in particular against the industrial policy of agreement and co-operation with employers, which was approved by the Majority Socialists and the trade unions. The latter were the deciding factor and they made their decision at the Nuremberg Congress in July 1919, in favour of constitutional works councils. "In agreement with the trade unions and backed by their authority, the works councils will introduce the principle of democracy into the factory. The basis of this democracy is the collective labour agreement legally sanctioned and with the force of law."

This settled the character of the works councils; they were to be part of the trade union machinery, not rival institutions with a political object. But the struggle for mastery, which was later renewed, left lasting effects; it accounts for the firm determination of the German trade unions to have nothing to do with Moscow, in marked contrast to their British colleagues.

The principles and the form of the new order were laid down in general terms by Article 165 of the Constitution, which begins:

"The workers and salaried staffs are called upon, with equal rights and in association with the employers (undertakers), to co-operate in the regulation of wage and working conditions, and also in the entire economic development of the forces of production. The organization on both sides and their agreements are recognized.

"The workers and salaried staffs possess, for the protection of their economic and social interests, the legal right of representation in works councils, and also in district councils organized for economic areas, and a national council."

The Constitution then goes on to outline joint district councils and a national economic council in which the workers' organizations defined above would come together with corresponding employers' organizations. The ideas entertained at that time by Socialists on the scope of the works councils in regard to the conduct of industry were thus stated in the leading Socialist paper *Vorwärts*:

"The work of the councils is to substitute a democratic for an autocratic system in the actual administration of business,

and to replace the uncontrolled decision of the employer by the principle of the co-operation of the workers in all questions concerning them, and thus to prepare a new Labour Constitution. But it is otherwise as regards questions concerned with the economic and technical management of business. In this connexion the works council cannot be given equal rights with the employer, but merely a right to supervision and inspection. Direct participation of the workers in the management of a business is not Socialism but Syndicalism.”<sup>1</sup>

Coming from an authoritative Socialist source, this statement of principle is striking. It might have allayed the fears of employers, who thought the draft Bill on works councils—which had been already prepared and published—went too far, though they were in favour of the principle; but it did not, and they strongly opposed some of the provisions. On the other hand, the Majority Socialists thought it did not go far enough and the Left Wing objected to it altogether. Eventually, after months of discussion, the Bill, modified by amendment, was accepted in the National Assembly by 213 to 64 votes. It was admittedly a compromise between extreme views, and was so described by the semi-official organ, the *Deutsche Allgemeine Zeitung*, which said that it represented an intermediate solution of the question and was the first step towards a new order:

“In any case the Act marks a new era of development in the economic life of the country. It ensures workers the right of collaboration in questions of production, and it is, above all, the first step towards the organization of collective work and towards co-operation in the development of the economic life of the country by all sections of the population and all occupations concerned.”<sup>2</sup>

That seems to me a very good description. It was a beginning, and the direction, which is unmistakable, is more important than the actual advance made, though that was not small. It was probably as large as could safely be undertaken at one stride; for these economic developments will not be

<sup>1</sup> *Vorwärts*, 10th August 1919, quoted by Marcel Berthelot in *Works Councils in Germany*, p. 19.

<sup>2</sup> *Works Councils in Germany*, p. 27.



hurried, especially when they are embodied in the exact legal form which seems to be demanded by the genius of the German people.

It would be beyond the scope of this chapter to enter into the details of the Act, which is a formidable document, consisting of 106 clauses, divided into six sections; I can only state the main provisions and effect. It carried out the first part of the general scheme outlined in the Constitution, as quoted above, but only the first part. That is to say, it provided for the formation of works councils in all undertakings, whether public or private (with certain exceptions), employing as a rule at least twenty persons; the council to include both wage-earners and salaried staffs, who were, however, to form separate committees of their own. The functions of the council, stated in brief, were: (1) to protect the common economic interests of the employed, both wage-earning and salaried, as against the employer, and (2) to support the latter in carrying out the objects of the undertaking. That is the wording of the first clause of the Act; but in a later one (66), detailing the duties of the council, the order is changed, and the first three items are (1) to assist the management in attaining the greatest possible economic efficiency by their advice; (2) to co-operate in the introduction of new methods and (3) to promote peace by appealing in case of disputes to conciliation or arbitration organs. Their other duties are (4) to supervise the execution of arbitration awards; (5) settle conditions of work with the employer; (6) promote a good understanding among the employed, and between them and the employer, and maintain the right of free combination; (7) receive complaints from the committees of wage-earners and salaried staff, and work for the removal of grievances by discussion with the employer; (8) look after the prevention of accidents and dangers to health and assist the officials in carrying out the regulations; (9) co-operate in the management of pension funds, dwellings connected with the works and other welfare work.

The part assigned to the councils in this clause is modest enough, but a great deal of friction arose in carrying out the

provisions, not so much through the fault of the law as through the pugnacity of man, which asserts itself unfailingly at every opportunity. Friction was particularly rife in the mining industry, in which agreement appears to be everywhere more difficult than in most others. But the institution has weathered the storms and has justified itself as a whole. There is no intention of going back on it, and no doubt further developments will follow in due time. The wisdom of moving cautiously and allowing time for settlement when new relations are compulsorily established, and strictly regulated, has been abundantly proved.

The movement in America presents the greatest possible contrast in form, and this makes the identity of spirit or of direction in the two countries all the more remarkable. Its significance is enhanced by the fact that in both Germany and America the resistance to Trade Unionism or workmen's combinations has previously been maintained, though in a different manner and on almost opposite grounds, with a determination which had long disappeared in Great Britain and some other countries. When these two countries, so different in character and traditions, tread the same unaccustomed road, each in its own distinct way, we are surely in the presence of a world-movement.

It began in America, as elsewhere, during the war, through the formation of works councils or shop committees by the Government. American employers are as passionately devoted to the principle of free and voluntary action as Germans are dependent on legally defined authority, and consequently the compulsory introduction of this novelty in the United States did not incline employers to regard it with favour. Its subsequent voluntary adoption must therefore be ascribed to its success, which broke down prejudice. At any rate the practice spread and continued to do so after the war. In 1919 there were 225 works councils, covering 391,400 workers; in 1922 there were 725, with 690,000 workers; and in 1924 they had risen to 814, with 1,177,037 workers. The industries included were numerous and varied, but the metal trades, lumber and printing accounted for more than half the number. The practice had

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grown rather in the large-scale than in the smaller undertakings—more than half the total number of men covered were in establishments employing over 15,000. Though the organizations are called works councils there is no uniformity about them. The whole movement is voluntary and experimental and it includes a variety of types. But they all rest on the principle of joint conference between employers and employed. Professor Feis, of Cincinnati University, says of them :

“ Their establishment in every case signified the admission of one right which before the war was by no means universally admitted by employers—that is, the right of the workers in any plant to joint conference and consultation with the employers. This practice of joint conference, now almost universally admitted, has become essential in American industry, and its ultimate significance may be great. The shop committees have in a few cases distinctly progressed in their discussions from questions of wages and working conditions to questions having to do with the organization of production. In still other cases shop committees have been the means of getting the employer to furnish fuller information concerning the general financial and business situation of the enterprise or industry than had been customary heretofore. There is little doubt in the writer’s mind that the time is not far ahead when the workers in all industrial enterprises of large size will regard the establishment of some sort of shop committee as an integral and natural part of their position and rights in the enterprise.”<sup>1</sup>

In a letter to the English *Spectator* of 17th July 1926 Mr Murray T. Quigg, editor of *Law and Liberty* (New York), says :

“ In America there are between 1,500,000 and 2,000,000 workers organized in intra-factory groups for collective expression and collective bargaining of one sort or another. In some of the factories these organizations of wage-earners exercise very wide influence and have very accurate information as to the financial and business condition of the industry. In other factories or in other plants of the same company the influence of these wage-earners’ organizations is not so great.”

<sup>1</sup> *International Labour Review*, vol. xii., No. 6, p. 789.

There is one great difference between this movement in America and similar ones, not only in Germany but elsewhere, and particularly in Great Britain; and that is its relation to the trade unions. In America the works councils have been set up not only apart from the trade unions, but in a sense as counter-organizations, and they have been encouraged by employers partly for that reason. There was something of this antagonism in the "Shop Stewards Movement" during the war in Great Britain, and the struggle between works councils and trade unions in Germany has been noted above. But the Shop Stewards Movement was absorbed into the trade unions, and in Germany the law specially provides that the works councils shall be secondary or subordinate to the unions. So far as I can gather, the two are coming together, or likely to do so, in America also. The cordial acceptance of the principle of co-operation in industry by the chief trade union organization, the American Federation of Labour, through the mouth of its president, William Green, appears to involve, as a matter of course, at least harmonious relations between the unions and the works councils, which are the instruments for carrying out that policy; and this seems to me an essential condition for its lasting success and development.

(4) *Scientific Organization, or Rationalization of Industry.*—The term "Rationalization" has recently come into use in Germany, but the thing itself is most advanced in America. It is the organization of industry in accordance with exact knowledge of the factors involved and of the most advantageous methods of applying them to the end in view. It is, in fact, that application of science—exact knowledge acquired by observation and experiment—to industry for which Saint-Simon pleaded more than a hundred years ago. In its full meaning it has many sides and includes many problems, technical, physiological, psychological, commercial and financial. Sometimes stress is laid on one, sometimes on another. In Germany any "rationalization" generally stresses the technical methods of increasing output; in America the "Taylor System" takes more account of the physiological element; the policy of high wages and workshop consultation depends on the psychological; the



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study of industrial fatigue and welfare work have both a physiological and a psychological basis ; costing and marketing are branches of commercial science ; control of the market by banking credit is science in finance.

These are all different aspects of one great modern movement, which is the application of scientific principles, as defined above, to the organization of economic activities. And this is a new thing. The progress of industry has long been dependent on applied technical science, which is commonly divided into so many branches of engineering—as mechanical, chemical, electrical, hydraulic, aerostatic, etc. This is a commonplace of observation. That principles can be derived in a similar manner from exact study and applied to the economic apparatus as a whole is a new discovery and a new departure ; so new indeed that its full significance is not yet recognized even by those who are working at it. They are immersed in their own branch of study or practice and do not see its connexion with others. They do not see the movement as a whole. The coming of the term “ efficiency engineer ” to describe an expert in one branch of it shows how the old conception lingers even while it is used to describe the new. The essential difference between them is that, while the old deals entirely with material objects and natural forces, the new is concerned mainly or wholly with human beings—their capacities, aspirations and feelings. These are the objects of the new study and research, and the principles of practice derived therefrom are determined by the human reactions to stimuli.

This is a vast new region and it has been discovered within the economic field itself. It is a development of Capitalism. It owes nothing to theory or to moral precepts, though it has important moral effects. Still less does it owe anything to the initiative or example of publicly owned undertakings. It has come straight out of private industry in the most capitalistic of all countries—the United States—which has taken the lead and easily kept it, though other countries are perforce following, or trying to follow, the example, not excluding Soviet Russia, where Lenin declared in 1918 that they must introduce scientific organization, piece-work and valuable elements in the “ Taylor System.”

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It is, of course, quite out of the question to give here even a short account of the several aspects of the movement enumerated above. I can touch only briefly on its origin and progress.

The founder was the late F. W. Taylor, who was born in 1874 and died in 1915. But, as in other cases of pioneering, he did not perceive the true bearing of his own work, and the school he founded eventually developed on different and, in one sense, opposite lines. He was an industrialist brought up in the old school, and when he turned his attention to the human factor in industry, with a view to increasing output, he regarded the men as a portion of the machinery, which might be made more efficient by oiling and adjustment of parts, but all for the benefit of the concern, without any thought of what they were to get out of it. For them there was nothing in it but speeding-up, which they have always hated. Hence determined resistance from the trade unions, and not from them only. Employers were also hostile to the new ideas. But there was a profound truth in his discovery that by studying movements and their co-ordination much time and effort might be saved and much economy effected. Some of those who took up the idea carried it to extremes, in a narrow spirit, as is usually the case, and increased the prejudice against it; but gradually its real value was sifted out from excrescences, and its proper use came to be understood. Inquiry and experience, especially during the war, revealed the ground of the workers' opposition and pointed the way to remove it by taking their interests into account and turning the economy of time and effort gained by the new methods to their advantage.

This led to a study of the workman's psychology, and the whole movement passed into a broader and more human phase, which expanded rapidly after the war. Scientific management came to mean not only a great deal more than the "Taylor System," but also something very different. The key-notes were increased production and reduced costs—or maximum production at minimum cost, according to the French formula; but for this not only the most modern technical equipment and scientific organization were necessary, but also the hearty co-operation of the employed in that organization. How was this

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to be secured? By treating them as co-operators, studying their interests, encouraging them to earn maximum pay, consulting with them, giving them information about the business, **treating them with confidence.**

This policy appears to have been adopted by employers sufficiently to win over the American Federation of Labour, whose president, Mr Green, stated in 1925 that they "refused to accept the theory that the differences between capital and labour, between employers and employees, were irreconcilable," and insisted on the recognition of rights—"the rights of the employer to manage his industry, to control it and to receive a fair profit on his investment; the right of the employees to organize, to bargain collectively, to be represented in conference with employers, through their chosen representatives." Here scientific organization obviously coincides with industrial democracy and the works councils movement, described above.

The favourable attitude of the American Federation of Labour must be ascribed to experience. The new relations are not a matter of theory and phrases, like Socialism; they have been put to the test of practice, and in this the railway companies have been pioneers. The Baltimore & Ohio Railway began in 1922, by the experimental adoption of a scheme of regular collaboration between the management and the men, suggested from the side of the latter. It was tried in a repairing shop which had been notorious for friction, and consisted of joint committees, which met once a fortnight to discuss suggestions for running the shop, not wages or conditions of work. The experiment was completely successful; it resulted in substantial savings and additions to the wage-bill, and gave satisfaction to both sides. The policy was extended to the whole system and then taken up by other railway companies. The organizer, Mr Beyer, in a report made to the Canadian National Railways, said: "The American labour movement has definitely passed from the stage of collective self-defence to that of collaboration for the promotion of efficiency." It is recognized by the employed that their own welfare depends on the success of the business. As Green puts it, they "hold that increasingly

higher standards of living can be assured all only through increases in production," and they co-operate readily when they are fairly treated as co-operators. That is the broad lesson taught by these experiments.

One further point in this connexion is too important to be omitted, and that is the question of steady employment. The psychology of a workman—and, indeed, of everybody—is affected not only by his present position but by his prospects. He may be satisfied more or less fully with the present, but will it last? A feeling of insecurity is always disturbing, and men occupied in industry are peculiarly exposed to it because of the fluctuations of trade. The fear of unemployment through this cause is ever before them. The oscillations of trade have long been a matter of general concern and the subject of much study. They are one of the principal counts in the indictment of modern Capitalism and largely responsible for the rise and progress of Socialism, which claims possession of a complete remedy, and the only one, for this evil, along with all others.

I may observe in passing that the assumed responsibility of modern Capitalism for creating trade fluctuations is at variance with the historical facts, and fallacious. Trade has probably been liable to them ever since it existed, through the effects of weather, war and disease; they certainly occurred in the Middle Ages, with all the phenomena of price variations, and were more violent and capricious than they are now. They have changed their character and have become more regular and more general in modern times; but the evil of unemployment, though familiar and deplored centuries ago, has been enhanced by the development of modern industrialism and the growth of population. It is undeniably a great weakness in economic life, and one that clamours for treatment. But to judge from the experience of Russia, where it has been worse than anywhere else, Socialism has no real remedy. The need of one has been more imperative than ever since the war, and the stabilization of employment has been taken up as a practical problem and an indispensable feature of scientific organization. It has been studied on more systematic lines than before in several



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countries; up to the present, it must be admitted, with little practical effect, though not without some progress. The chief result has been to clarify the problem, classify the kinds of unemployment according to causation, and lay down lines of action in the light of the knowledge gained.

Mention has already been made of unemployment insurance and its recent development on both compulsory and voluntary lines; but the object of insurance is to remove the worst effects of unemployment, not to prevent its occurrence, which it can do only indirectly and to a small extent. It is an improvement on bare relief, or "relief works," which are relief a little disguised; but it does not touch the real problem, and it is open to abuse. The real problem is to prevent unemployment by stabilizing trade, and it has become clear that a necessary condition for solving it is foreknowledge of the movement of trade. One kind of fluctuation—the seasonal—can be foreseen with certainty and a large measure of precision; and far more can be done to meet it than has yet been attempted. Generally speaking, it has hitherto been taken as a matter of course and an unavoidable evil, without any attempt to deal with it at all; but recent investigation and experiment, particularly in America, show that the problem is susceptible of at least partial solution.<sup>1</sup> The building trades, one of the outstanding examples of seasonal fluctuations, have been the subject of a special inquiry, with the result, in Mr Hoover's words, that "for most types of construction it is now possible to build the year round in all parts of the United States." In another difficult case—manufacture for the Christmas market—the problem has been solved with complete success by the Dennison Manufacturing Company. On the other hand, unemployment through death, bankruptcy or other sudden misfortune cannot be foreseen at all; but this kind, though it may cause great and unmerited suffering to individuals, is limited and temporary, and can be met by insurance.

The great difficulty is what is called—not very happily—

<sup>1</sup> See *Stabilization of Employment in the United States*, by J. R. Bellerby (*Studies and Reports*, International Labour Office, Series C, No. 11), pp. 34-38.

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"cyclical" unemployment, or the trade cycle, meaning the alternate rise and fall of trade activity—boom and slump, to use the current slang. It is more or less a world-wide phenomenon, though different countries are affected in different degrees; and there is a certain rhythm about it. But unfortunately it is by no means so regular as the word "cyclical" implies. If it were, its occurrence, duration and intensity could be foreseen with approximate certainty and prepared for; but that is just what cannot yet be done. Recent study has, in fact, been directed mainly to the practical problem of forecasting. The causation, though much discussed by economists, and the subject of many theories, has never been satisfactorily determined, and now receives less attention than the probable course of events. It is something like the weather and meteorology. There have been many theories about the weather and cycles, but they have not stood the test of experience, and meteorology is more concerned to-day with short-time forecasting, in order to meet the conditions, than with ultimate causation. So with trade meteorology. Scientific stabilization of trade depends on correct forecasting, which enables corrective measures to be applied in time.

This line of advance has been developed in the United States more actively, perhaps, than elsewhere, mainly through the operations of the Federal Reserve Board, which has systematically controlled credit with a view to stabilization since 1920, and apparently with considerable success. Another equalizing expedient is the advance planning of works, both public and private; and this also depends on foreknowledge. Probably the best service that Government departments can render is the collection and dissemination of information which may serve as a guide. It is not to be supposed that production and consumption can ever be exactly equated and trade go forward on a perfectly even keel. There are too many uncontrollable factors in play—discovery and invention, the caprices of man and the vagaries of nature, which last are probably the real starting-point of oscillation. But extreme instability can be avoided and advance is being made in that direction on the lines indicated, and on others.

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(5) *Capitalist Democracy*.—This term has been used to signify the diffusion of ownership, which seems to me the greatest of all the changes now in progress in economic life, and certainly the one that has the most direct bearing on Socialism. For the question of the ownership of capital has always been at the heart of Socialism and all the other cognate or opposed “isms”—personal ownership in Individualism, State ownership in Collectivism, trade-union ownership in Syndicalism, guild ownership in Guildism, community ownership in Communism, no ownership at all in Anarchism. It is, in fact, the fundamental question. And what is actually happening to-day is a vast and rapid multiplication of owners, representing the diffusion of capital in various forms and through many agencies.

It has been going on for a long time in the form of savings banks, co-operative societies, building societies, insurance, public loans, and joint stock companies, without attracting much attention, and certainly without any realization of its social significance as a whole. Even to-day the word “capitalist,” as commonly used, carries with it implicitly the idea of a rich man, and unearned income is spoken of as though it were the exclusive privilege of the “idle rich.” Indeed, there are Socialists who still try to maintain that Marx was perfectly right in predicting the progressive concentration of capital in ever fewer hands and the progressive reduction of all other people to the status of propertyless proletarians, although that is diametrically contrary to what has really happened. But the war has given so great an impetus to the diffusion of capital that the true situation is beginning to be generally recognized. In agriculture the break-up of large estates, both voluntary and compulsory, is general; and at the same time the older forms of saving and investment have been greatly extended, while new ones have been added, which directly affect the relations not only of employers and employed, but also of producers and consumers, and tend to unite their interests.

Here again the lead has been taken in the United States, where the new movements, though not confined to that country, have been pushed forward with extraordinary freedom, variety

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and vigour. One form is a great extension of the old idea of co-partnership in industry, which had previously been disappointing on the whole and had made little progress, though it had not failed so completely as is sometimes represented, and had been thoroughly and permanently successful in particular cases. Its recent revival and extension in America is due to several causes, which may be summed up as greater willingness on both sides and greater ability on the part of wage-earners to take advantage of the opportunity through the high level of earnings. On the part of the employers, the pioneer action of a few on a comparatively small scale has expanded into a general wave on a great scale for promoting the purchase of shares in industrial companies by splitting them up and facilitating their acquisition by wage-earners. The latter were, for their part, ready to respond in a new spirit, aroused partly by experience of the Liberty Loan campaign, which implanted the habit of investment far and wide, partly by a rising aspiration encouraged by the policy of high earnings and the spread of industrial democracy—of which shareholding is the logical completion.

No comprehensive and exact statistics of this movement have been published, so far as I can ascertain ; it has been too rapid. But a rough idea can be gathered from the increased number of shareholders in particular companies, of which the following are conspicuous examples. The figures show the number of shareholders a few years ago and at the end of 1924 :

TABLE—



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<i>Company</i>	<i>Former Shareholders</i>	<i>Shareholders in 1925</i>
American Telegraph & Telephone	7,535	343,000
Standard Oil Group . . .	6,078	300,000
United States Steel . . .	43,019	158,940
Pennsylvania Railroad . . .	29,000	144,228
Atchison Topeka Railroad . . .	13,147	67,118
Southern California Edison . . .	2,000	65,636
Southern Pacific Railroad . . .	968	60,186
Union Pacific Railroad . . .	12,450	52,532

These examples are quoted to show the tendency of expansion in ownership, not its extent. The whole increase of numbers does not, of course, fall to persons employed in the concerns named, but a large part does; and the rest represents other persons of comparatively small means, who hold only a few shares. The diffusion of capital is widely spread, and in the case of public utility companies most of the shareholders are consumers. Mr Robert S. Brookings gives some interesting details in his book on *Industrial Ownership*. He states the number of shareholders in the Bell Telephone System, their occupations and the number of shares they hold. There are 97,833 shareholders distributed in 98 occupations and owning 560,033 shares, or just under 6 shares apiece. Among them 1596 labourers hold 4843 shares; 1537 railwaymen have 6432; 156 bricklayers have 870; 498 domestics have 2384; 159 miners have 622; 797 carpenters have 3123; 10,732 clerks have 43,982; 19,597 housewives have 119,331 and form by far the largest single class; 1247 bankers and brokers have 21,610; and 24 "capitalists"—presumably persons of no occupation—have 712. This list, which is typical, goes a long way to justify the expression "capitalist democracy."

I have said that the diffusion of capital has been proceeding more rapidly in the United States than elsewhere, and it has assumed some special forms there, to which I shall come in a moment; but it is not at all confined to America. The following

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figures, giving the number of shareholders in some large concerns, show a wide diffusion in Great Britain :

<i>Company</i>	<i>No. of Shareholders in 1925</i>
London, Midland & Scottish Railway .	308,028
London & North-Eastern Railway . .	252,961
Great Western Railway . . . .	135,108
Southern Railway . . . . .	90,000
Vickers Limited . . . . .	73,382
Westminster Bank . . . . .	69,882
Midland Bank . . . . .	57,250
Lloyds Bank . . . . .	55,668
Courtlands Limited . . . . .	43,826
Harrods Limited . . . . .	33,253

Only a very general conclusion can be drawn from these and similar figures ; they do not tell one the number of individual holders, and they do not include very small investors. The latter have recourse chiefly to Post Office and other Savings Banks, National Savings Certificates and allied Government securities. Mr Walter Runciman, M.P., has calculated that in 1925 investments of this kind amounting to £770,000,000 were held by 15,000,000 persons. Adding provident societies and insurance funds, he made out a total of £1,750,000,000 held mainly by small investors. In other countries small savings are catered for by similar institutions, and in some—France, for instance—probably to a greater extent than in England. Nor is investment by wage-earners in industries in which they are occupied either a new or a small thing. Apart from co-partnership in the ordinary sense, it has long been a custom in the Lancashire cotton industry for the workers to put both share and loan money into the mills. It is said on unimpeachable authority that in the spinning industry 90 per cent. follow this practice.

In this connexion an important question arises, on which the

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Lancashire experience throws some light. What is the attitude of worker-owners to the management? We hear much to-day of the claim to a "voice in the management" or a "share in control," and employers are afraid of it. Worker-owners, having a double claim, might be expected to insist on it, but they do not in these Lancashire cotton mills. They select for investment mills where they have confidence in the management, and leave it to manage. They have a say, as workers, in conditions affecting themselves through their representatives on the joint consultation principle; but as part-owners they do not interfere in the management of the business, which they recognize as a special faculty. Their attitude is that of other shareholders, who have the power to select the person or persons entrusted with the actual conduct of the business, but do not exercise any further control, except upon occasions when called upon to decide some question of general policy submitted to them. I go a little further into the question later on, and am here stating only the Lancashire experience; but it is, I believe, in keeping with that of other successful cases of worker-shareholding, of which there are a good many in Great Britain.

Before pursuing this aspect of the subject, however, there remains to be mentioned one new and more organized form of capitalist democracy, which has grown with astonishing rapidity in the United States and has made a beginning in other countries. I refer to the institution of Labour Banks and Investment Companies. Though started only in a small way by the Mount Vernon Savings Bank in 1920, this movement has grown so rapidly in America that in 1925 there were 29 Labour banks, of which one alone—the Brotherhood Locomotive Engineers Co-operative National Bank—commanded over £5,000,000 of capital, and several others more than £1,000,000; they totalled some £18,000,000. Two trade unions—machinists and locomotive engineers—had also acquired partial control of two other banks, with aggregate resources of £18,000,000; and there were in addition seven Labour Investment Companies, with a total capital of over £4,000,000.

A similar movement, though on a much smaller scale, is

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also in progress in Belgium, France, Germany and Spain ; and it seems to have started quite independently of the American example. It has taken the form of investment funds raised by trade unions for purchasing shares in industrial enterprises and other securities. In Belgium the first steps were taken by the Christian trade unions of the Liège district in 1920 or 1921. They formed a Trust for the purpose named, and fixed the shares at 25 francs, with unlimited membership. They encountered various difficulties at first, but persevered, and eventually succeeded so well that their example has been followed at Brussels and Charleroi. Liège is the chief metal-working district of Belgium and Charleroi the mining centre ; and the first purchases were shares in metallurgical and mining concerns. Since then the trusts have gone on to buying shares in insurance companies and banks.

In France the movement began about the same time by the independent action of the Christian railwaymen's unions and of bank clerks. The men employed on the Paris-Orleans lines were first in the field, and in 1925 they owned 120 shares in the company ; the men on the Nord-Est and Paris-Lyon-Marseille systems have since followed their example with success. There seems to be some difference between the French and Belgium conceptions of the object in view. The French representatives at shareholders' meetings have declared the purpose of collaboration for the general benefit of the concern, and have been cordially welcomed. The Belgians, on the other hand, have rather used the opportunity to press their own claims at shareholders' meetings ; but this difference may be due in part to the pre-existing relations.

In Germany also trade unions and salaried workers have combined in certain places for the purchase of shares in several industrial concerns, and in Spain the workers employed by the Tobacco Company of Madrid have done the same.<sup>1</sup> This movement is evidently a live and growing one. Whether its extraordinary development in America would stand the shock of a serious depression remains to be seen ; but in the earlier years of its existence it lived and grew through a period of severe

<sup>1</sup> See *International Labour Review*, vol. xii., No. 3.



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depression there, and the same may be said of the more modest efforts in Belgium, France and Germany.

To return to the general question of the attitude of worker-owners to management mentioned above, and also raised by the observations on the difference between the views of French and Belgian trade unions representation, experience goes to show that fears of interference with management to the detriment of the concern are misplaced. On the contrary, the influence is rather a safeguard against harmful interference. As shareholders they have a much closer and more direct interest in the prosperity of the concern than as mere wage-earners, and the great advantages of admitting them in that capacity is that it gives them an insight, which they cannot gain outside, into the affairs of the concern and the principles of what the Germans call "success economy." In the old type of undertaking, in which the owner was the undertaker, he had full responsibility and a free hand, and success depended on his ability. The elements are the same in the new economy, in which ownership is separated from management. The difference is that the undertaker is selected, or allowed to select himself, by the shareholders, with whom the decision ultimately rests. The elements of success are right selection, full responsibility and a free hand. That is now recognized by economists, and it is also perceived that the function of the undertaker, so far from having become superfluous, has become much more important, and that large undertakings require for their successful conduct a rarer kind of ability than small ones and one more difficult to replace.

Worker-shareholders are quite as capable of realizing this as any others, when they have the opportunity. It is the lack of opportunity to learn the principles of "success economy" that leaves men ignorant and a prey to the delusion that they could run the thing better themselves. There may be individuals among them who could, to the common advantage. The best way to bring out their capacity and make use of it is to give them a hearing. Much is said of the need of employers taking men into their confidence in order to secure their co-operation. The way to do it is to couple workshop consultation on

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details with shareholders' responsibility for policy. It is keeping them at arm's-length that fosters antagonism. There is not the slightest doubt that the penetration of workmen's and trade union representatives into shareholders' meetings tends to more harmonious relations and the benefit of a concern in which they have a common interest. And the more there are of them the greater their responsibility for its success.

## CHAPTER XI

### CONCLUSION

THE conclusion to which this study leads is a definite view of the direction in which economic and social change is proceeding. To me it seems clear enough, and some readers will probably agree with me ; others certainly will not. That is all right ; time will decide.

The economic order is always undergoing change wherever knowledge increases, because men find thereby new ways of satisfying their needs and desires ; and this entails new relations between them. The process never ceases, but it varies in pace ; at times it is slow, at others quick. Whether quick or slow, however, it is never abrupt. There is always continuity as well as change, because men live from day to day. They must get their sustenance to-day very much as they did yesterday, and as they do to-day so they will to-morrow. Change is therefore necessarily gradual ; and this applies also to the living social organism which operates the economic apparatus and adjusts itself to the working. Too abrupt change puts the mechanism out of gear and impairs its efficiency in a corresponding measure.

This is not, of course, the whole truth. Men are not altogether the puppets of circumstance. They have ideals, which soar above the sordid elements of material existence, and they can by an effort of will modify the social organism. But only within limits—limits which are set by material conditions and the human elements that react to them. Enthusiasm may soar to the skies, but two and two continue to make four and men will not behave as though they made five. The principles of economic and social change just indicated cannot be ignored with impunity. But in time of great excitement there is a strong temptation to ignore them and to attempt changes which may be not only too abrupt, but also in the wrong direction.

That is what has happened since the war. It was a time of great excitement, which offered an opportunity of effecting changes, or at least trying experiments, not possible in quieter times ; and among them was the vast economic change known

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as Socialism, that has been advocated with extraordinary vigour and increasing acceptance for the last forty years.

The attempt has been made with the result described in this book. It has failed because it violates the principles of organic change, and is in the wrong direction, being based on economic fallacies. That is evident because other changes have been going on at a great pace, but in a different direction. It is impossible to contemplate the collapse of Socialism in Russia and its impotence elsewhere, and to compare that picture with the real, live, multifarious changes briefly described in the last chapter, without being struck by the contrast. On the one hand paralysis and stagnation; on the other intense activity and rapid progress. There is no advance at all towards public ownership and a distinct retrogression from public administration. The real forward movement is entirely different, and it is real because it is in keeping with the true principles of change. It preserves continuity and is organic. Its very variety is evidence of that; for all sociological, like biological, change is in the direction of multiplicity and variety, not of simplicity and uniformity. This does not mean anarchy or lack of order, but a higher order. The supposed "anarchy" of capitalism is a delusion; there is an internal order, which escapes observation because of its minute intricacy.

An element of public ownership will remain. It has come into existence, not arbitrarily but for valid reasons; but it is strictly limited. It would have extended, had there been sufficient reason—that is to say, if extension were economically and socially advantageous. There is one direction in which I think it will, for that reason. I refer to new and undeveloped natural sources of power, and particularly of water-power. I think public possession, though not operation, of such sources will have advantages and that public opinion will demand it. There may also be some transference of other natural resources; but the great economic apparatus will not be nationalized, even by degrees. That solution never had any solid reason behind it, and its unsoundness has been revealed by the touchstone of practical trial. It was inspired by the illusory vision of a perfect system and cure-all, a simple, uniform and sufficient remedy



## CONCLUSION

for felt evils. There is no such thing ; there is no master-key to unlock all doors. Socialism is not the only victim of this illusion : all the doctrinal "isms" share it in some measure. They are wrong, because they are "isms"—that is to say, they are too absolute and claim too much. There is something in them, some verity, but not the whole truth, which is much too wide to be squeezed into any formula.

This applies to Individualism too. What is really happening to-day, to put it in a broad, philosophical way, is the shaping of a new compromise between the individual and the social elements in man, which are equally indestructible and equally powerful. They stand in an antithetical relation, like liberty and authority, of which they are the counterparts ; and, as with liberty and authority, there is always, and necessarily, a compromise between them, because they are indestructible, But this compromise is always imperfect ; neither is completely suppressed, but one is given the ascendancy over the other, which is sacrificed to it. And this happens alternately by a see-saw action, which comes about because each in turn is made into a fetish and is carried too far, until it becomes intolerable and a reaction sets in, not abruptly but gradually, leading to a fresh compromise.

Individualism represented a reaction against the overstrained authority of the State, and, being carried too far, in turn gave rise to a counter-reaction in Socialism. The mistake embodied in these terms lies in trying to make one element too supreme over the other. Last century it was the individual element ; to-day it is the social. Hence a reaction against it and a new compromise. Of course doctrinaire Socialists will fight against the reassertion of the individual element, as doctrinaire individualists fought against the inevitable assertion of the social element in the last century. They will clamour for more authoritarian control, as the others demanded unrestrained freedom, but they will not get it, because it is inimical to economic efficiency, which has compelled the reinstatement of *laissez-faire* in the sense of giving the undertaker a free hand, not to treat people anyhow, but to perform his proper functions.

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The new compromise will gradually shape itself in accordance with men's needs. And it will be a better one. For there is progress in this matter—progress by a zigzag movement. In each successive compromise the two elements are more evenly adjusted and more fully reconciled. In the order now forming the value of personality, of leadership, of individual effort and initiative will receive new recognition; but at the same time the social obligation of upholding the weak and unfortunate will be fulfilled better than before; many doors will be opened to claims for equal rights, and class differences will gradually melt away in the warmth of increasing association and the coalescence of interests.

## APPENDIX I

### PROGRAMME OF THE SOCIAL DEMOCRATIC PARTY OF GERMANY

*Resolved at the Heidelberg Congress, September 1925*

ECONOMIC evolution has led, by virtue of its inherent laws, to the strengthening of the large capitalist concern, which in industry, commerce and transport more and more thrusts back the small concern and diminishes its social importance. The progressive development of industry is accompanied by the continuous increase of the industrial population in proportion to the agricultural. Capital has separated the mass of the producers from ownership of the means of production and turned the workman into a propertyless proletarian. A great part of the land rests in the hands of the large estate owner, the natural ally of the large capitalist. So the economically important means of production have become the monopoly of a relatively small number of capitalists, who thereby wield economic dominion over society.

Concurrently with the advance of the large concern in the economic field, an increase in the number and importance of salaried staffs and intellectuals of all kinds takes place. They exercise in the socialized process of production the functions of management, supervision, organization and assignment; they advance the methods of production by scientific research. With increasing number, the possibility of rising to privileged positions is lost to them more and more, and their interests coincide in increasing measure with those of the other workers.

Technical development and monopolization of the means of production enormously increase the productivity of human labour. But large capital and landownership seek to monopolize for themselves the results of the social process of production. A full share in the material and cultural progress made possible by the heightened power of production is withheld not only from the proletarians but also from the middle classes.

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Tendencies are incessantly at work in Capitalism to depress the working sections in their standard of living. Only by a constant struggle is it possible for them to protect themselves from increasing degradation and to improve their position. To this is added insecurity of existence in a high degree and the perpetual menace of unemployment. This causes special suffering and bitterness in the periods of depression which follow every economic advance and have their roots in the anarchy of Capitalist production.

The capitalist striving for monopoly leads to the combination of different branches of industry, the linking-up of successive steps in production and the organization of economy in trusts and *Kartells*. This process unites industrial, commercial and bank capital to form finance capital.

Thus single groups of capitalists become the overlords of economy, and bring not only wage-earners but the whole of society into a state of economic dependence.

Finance capital, as its influence increases, uses the power of the State to secure dominion over foreign regions as markets for goods, sources of raw materials and fields for investment. This imperialistic striving for power constantly threatens society with conflicts and the danger of war. But the pressure and dangers of high Capitalism are accompanied by a rising resistance on the part of the ever-vigilant working class, which is schooled and united by the mechanism of capitalist production itself, as well as by the constant work of the trade unions and of the Social Democratic Party. Ever greater grows the number of proletarians, ever more acute the antagonism between exploiters and exploited, ever more embittered the class conflict between the capitalist rulers of economy and the ruled. While the working class fights for its own emancipation, it represents the common interests of society against capitalistic monopoly. A Labour movement, powerfully strengthened and grown great through the sacrificing work of generations, stands confronting Capitalism as an evenly matched antagonist. A determination emerges stronger than ever to overcome the capitalist system, and through the international union of the proletariat, through the creation of an international law, a true



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bond between equal people, to protect mankind from annihilation by war. The aim of the working class can be accomplished only by the conversion of private ownership of the means of production into social ownership. The transformation of capitalist production into socialistic production carried on for and by society will have the effect of making the development and advance of productive power a source of the highest welfare and all-round completeness. Then only will society raise itself from subjection to blind economic forces and from a state of universal distraction to free self-administration in harmonious solidarity.

The struggle of the working class against capitalist exploitation is not only an economic but necessarily also a political struggle. The working class cannot wage its economic fight or fully develop its economic organization without political rights. It possesses in the Democratic Republic the form of constitution, the retention and development of which is an indispensable necessity for the battle of emancipation. It cannot achieve the socialization of the means of production without coming into possession of political power.

The proletarian emancipation struggle is a task in which the workmen of all lands participate. The Social Democratic Party of Germany is conscious of the international solidarity of the proletariat and determined to perform all the duties that fall to it therefrom. The permanent welfare of the nations is to-day only attainable through their close co-operation.

The S.D.P. is fighting not for new class privileges and rights, but for the abolition of class domination and class itself, for equal rights and duties for all, without distinction of sex and race. Starting out from this standpoint, it combats not only the exploitation and subjection of the wage-earners, but every sort of exploitation and subjection, whether directed against a people, a class, a party, a sex or a race.

The task of the Social Democratic Party is to impart consciousness and unity to the emancipation struggle of the working class, to point out its inevitable end. By constant struggle and effort in the political, economic, social and cultural field of activity, the party presses on towards its final goal.

## PROGRAMME OF ACTION

*Constitution.*—The Democratic Republic is the most favourable ground for the emancipation struggle of the working class, and therefore for the realization of Socialism. Consequently the Social Democratic Party of Germany protects the republic and stands for its complete development.

The Realm (*Reich*) is to be transformed into a single republic on the basis of decentralized self-administration. The understructure of local units and States is to be organically reconstructed, and on that basis is to be reared a strong Commonwealth authority (*Reichsgewalt*), possessing the necessary legislative and administrative powers to lead and hold together a united Realm.

Extension of the direct administration of the Reich to justice; all Courts to be Reich courts. The ordinary police to be established on uniform principles by legislation. A State criminal police force to be created.

All monarchist and militarist efforts to be guarded against. Transformation of the militia into a trustworthy organ of the republic.

Complete realization of constitutional equality for all citizens without distinction of sex, origin, religion or possessions.

*Administration.*—The aim of the social democratic administrative policy is to replace the State police executive, taken over from the old authoritative State, by an organization which places administration in the hands of the people on the basis of democratic self-government.

That requires:

Democratization of the Executive.

Legal uniformity of provincial administration.

The Supreme Authority determines the principles of administration; responsibility for their application rests with the local self-governing bodies, in so far as matters are not involved which on account of their central character require the direct administration of the Supreme Authority.

Local and provincial peculiarities must be allowed play within the framework of the national law.

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A provincial administration law laid down by the supreme legislature regulates the composition and competence of the public administrative districts and organs equally for all the provinces.

A uniform legal order is to be established for municipalities (*Gemeinden*) and associations of municipalities (rural, urban, district and provincial) by national regulations.

The single-chamber system is to be adopted for all local government bodies. Burgomasters are to be elected for a fixed term of years.<sup>1</sup> The local government organs conduct the affairs of their administrative area within the framework of the national and provincial laws, but independently and on their own responsibility. For questions of general public interest the referendum and initiative are to be introduced into the municipalities.

National control over administration, and particularly protection of the individual citizen against infringement of his rights by acts of the administration, is to be secured by independent courts formed on the lines of courts of justice. The national administration court exercises at the same time the functions of a supreme administration court in all provincial affairs.

The municipalities and associations of municipalities are to be granted by a national municipalization and expropriation law the rights and powers required for the carrying on and extending the municipal system of economy.<sup>2</sup>

The form of administration is to be such that on the one hand the economic conduct of the concerns shall be free from bureaucratic fetters, but on the other hand the public bodies retain the unlimited right of decision.

All officials and persons employed by public authorities are

<sup>1</sup> Burgomasters in Germany correspond rather to Town Clerks than to Mayors in England. They exercise important administrative powers, are salaried, and hold the appointment permanently.

<sup>2</sup> The object is apparently to empower local authorities to expropriate private enterprises within their own sphere and on their own responsibility. The General Socialization Act of March 1919 only gives power to the Reich to take over private concerns and to associate provincial and local authorities with itself in the administration of such expropriated concerns.

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to be placed under uniform regulations, which govern selection, appointment, promotion, representation and protection on democratic and social principles.

*Justice.*—The Social Democratic Party is opposed to all class and party systems of justice and stands for a legal order and a legal practice filled with a social spirit and decisively influenced by the co-operation of elected lay-judges in all branches and all stages of the administration of justice.

In particular the party demands :

In civil law, the subordination of the rights of property to the rights of social unity, increased facilities for divorce, equality of husband and wife, equality of legitimate and illegitimate children.

In criminal law, better protection for the person and for social rights, replacement of the retaliatory principle by the reformatory and the public protection principles. Abolition of the death penalty.

In criminal prosecutions, restoration of the jury system and its extension particularly to political and press offences, the right of appeal against all punitive sentences, all pronouncements prejudicial to the defence to be set aside.

In cases under investigation, protection of arrested persons against official encroachments, arrest only on the strength of a magisterial warrant, except in cases of persons caught in the act, complaints against arrest to be dealt with by verbal procedure.

Regulation by law of the execution of punishment in the spirit of humanity and on the reformatory principle.

*Social Policy.*—The protection of workmen, salaried staff and officials, and the raising of the standard of living demand :

The right of combination and of strikes.

Equal right to work for women. Prohibition of all gainful work by children of school age.

Statutory establishment of the eight-hours day as a maximum, with shorter hours for youthful workers and in dangerous trades. Curtailment of night work. Weekly continuous rest of at least twenty-four hours. Annual holidays with full pay.



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The carrying-out of emergency work to be left exclusively to the trade unions.<sup>1</sup>

Objectionable conditions in home-work to be combated, with the aim of its complete abolition accompanied by full provision for the persons affected.

Supervision of all works and undertakings by a system of factory inspection, which is to be developed into a national institution by the inclusion of workmen and salaried persons as officials and delegates.

The validity of collective agreements to be secured and assistance in concluding them to be given by the conciliation officials.

Independent courts for labour questions distinct from ordinary courts of law.

Uniform Labour laws.

Social insurance to be unified and developed into a universal popular system. Inclusion of the disabled and the unemployed.

Comprehensive, preventive, curative and protective measures in the sphere of popular welfare, and particularly of education, health and economic conditions, uniform regulation by law of welfare work, ensuring the co-operation of the working class in carrying it out.

Promotion of international conventions and legislation.

*Educational Policy.*—The Social Democratic Party strives to abolish the cultural privileges of the possessing classes.

Education, schooling and research are public matters; their conduct by public means and institutions is to be ensured. Gratuitous instruction, gratuitous equipment for teaching and learning, economic provision for the scholars.

The public institutions for education, schooling, culture and research are secular. All statutory influence over them by ecclesiastical, religious and doctrinal bodies is to be opposed, State and Church to be separated, school and Church to be separated, secular primary, professional and high schools. No expenditure from public funds for ecclesiastical and religious purposes.

<sup>1</sup> Emergency work is the maintenance of plant, etc., during strikes—*e.g.* pumping in coal mines—called safety work.

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Uniform structure of school system, establishment of the closest relations between manual and mental work at all stages.

Co-education of both sexes by both sexes.

Uniform training of teachers at high schools.

*Finance and Taxation.*—The Social Democratic Party of Germany demands a fundamental and comprehensive reform of finance, based on the principle of taxation at the source and distribution of burdens according to economic ability to bear them.

In particular :

Extension of income, property and inheritance taxes.

Equal and uniform assessment of taxes, with publication of the taxation list. Effective tax collection, particularly by compulsory inspection of accounts and businesses.

Exemption of a minimum social scale of living from taxation. The consumption of the masses to be spared to the utmost. The tax on turnover (*Umsatzsteuer*) to be abolished.

Participation of the public authorities in the possession of property and the administration of capitalist gainful undertakings.

*Economic Policy.*—In the battle against the capitalist system the Social Democratic Party of Germany demands :

Land, minerals and power sources, which serve for the production of energy, to be withdrawn from capitalist exploitation and transferred to the service of the community.

Development of the system of economic councils, so as to give the working class the right to a voice in economic organization while preserving close co-operation with the trade unions.

National control over capitalist combinations, *Kartells* and trusts.

Promotion of increased production in industry and agriculture.

Promotion of land settlement.

Reduction of the import tariff system by long-term contracts with a view to the establishment of free trade and the economic combination of the nations.

Development of the national, provincial and municipal business undertakings, while avoiding bureaucratization.

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Promotion of co-operative and public utility undertakings not conducted with a view to profit.

Promotion of public utility building, statutory regulation of rent, opposition to the speculative builder.

*International Policy.*—As a member of the Socialist and Labour International the Social Democratic Party of Germany fights in common with the workers of all lands against imperialist and fascist aggressions and for the realization of Socialism.

It opposes with all its strength every acerbation of the antagonism between peoples and everything tending to endanger peace.

It demands the peaceful solution of international disagreements and their settlement by compulsory arbitration courts.

It advocates the right of self-determination for the people and the right of minorities in democratic and national self-government.

It opposes the exploitation of colonial peoples, the destruction of their economic methods and their culture.

It desires international disarmament.

It advocates the establishment of European economic unity, which has become urgent from economic causes, the creation of the United States of Europe, as a step towards accomplishing the solidarity of interests among the peoples of all continents.

It demands democratization of the League of Nations and its conversion into an effective instrument of the policy of peace.





## APPENDIX II

### THE SWEDISH SOCIAL DEMOCRATIC PARTY

*Political Programme adopted at the 12th Party Congress at  
Stockholm, 1924*

#### I

FREEDOM of speech and of Press. Freedom of religion. Right of combination and of holding public meetings.

#### II

Democratic self-government. General, equal and direct suffrage for all adult men and women. Republic. Democratic representation. Referendum.

#### III

Competent administration, recruited and controlled along democratic lines.

#### IV

Influence of the people in matters of justice. Collaboration of laymen in the administration of law. Public procedure in all instances. Gratuitous legal advice. Humanized criminal legislation. Capital punishment to be abolished. Martial laws to be abolished. Legal equality for men and women. Class laws against workers to be removed.

#### V

Gratuitous instruction in schools owned by the State. Common public schools as a basis of the education of all citizens. Special schools for crafts, industry, commerce, agriculture and free trades. Admission secured to secondary and higher schools for qualified pupils. Economic obstacles for their education removed. No confessional schools. Furtherance of scientific investigations and free educational work.

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### VI

State Church to be abolished. Property owned by the Church to be taken over by the community.

### VII

Direct taxes. Progressive taxes on income. No taxes for a minimum existence. Increased taxes on income without work. Private property taxed progressively, especially through death duties. The growth of capital to the benefit of society secured from taxes. Surplus income from enterprises of society contribute to filling the holes in the budget.

### VIII

Free trade. Export commerce organized under the control of Society.

### IX

Insurance against accidents, insurance against sickness. Insurance for mothers. Insurance for the unemployed. Pensioning of old age and invalids as well as pensioning of children and widows.

### X

(a) Eight-hours-day legislation. Prohibition of night-work, except in industries where for technical reasons or in the interest of the social welfare such work cannot be avoided. At least thirty-six-hours continuous leisure in a week. Industrial work of children under fifteen years of age, as well as all work that prevents compulsory education, to be prohibited. Protection against accidents. Factory inspection. Gratuitous public labour exchanges. A satisfactory standard of minimum wages regulated by society. Laws concerning protection of workers extended to home industries. Liberty of emigration or immigration. Benefits of labour protection of and insurance extended to foreign workers.

(b) The workers to be guaranteed a share in the management of private enterprises. The rights of the working classes to be safeguarded through international agreements.

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### XI

Prevention of intemperance. Instruction as to the effects of intemperance on the individual and the community. Measures to remove the social causes of alcoholism. Legislation towards restrictions and prohibition.

### XII

Right to expropriate property for the benefit of the community.

### XIII

To the possession of society are to be transferred: all natural riches, industrial establishments, credit institutions, means of transport and communication, which are needed for the establishment of a systematic economic administration. Competent administration of public enterprises, with guarantees against bureaucratic tendencies. Workers and consumers to participate in the administration of public enterprises. Enterprises which remain private property to be controlled by the community.

### XIV

Co-operation to be promoted by the community.

### XV

(a) Expropriation of privately owned large estates. Estates lying waste to be confiscated by society. Entailed estates to be abolished and bought by society. Ground donations made by the State to go back to society. Estates owned by the community to be partitioned only in cases when the natural conditions would otherwise prevent the application of rational agricultural methods. Leases of large estates to private farmers to be given only under guarantees that the interests of society and those of the farm labourers are protected. Land may be given to smallholders by society on mutual guarantees that the ground remains the property of society and the holders retain the right of security of tenure.

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(b) A system of concessions, placing the control of ground purchases in the hands of society, will be applied to all privately owned farms. Crofters and tenants of privately owned farms to be protected through satisfactory lease legislation. Compensation to owners for reclaimed land and improvements of the soil. On the death of a farmer the State has to buy the farm—should the heirs wish for it—in order to place them in a position to cultivate their parental soil. General law for the whole country concerning estates lying waste.

(c) The “Own Home” movement to be put in the hands of society. Society to lend money to the home-builder against instalments in order that he may build premises.

### XVI

The distribution of income and property to be regulated.

### XVII

Democratic control of foreign policy. Secret diplomacy to be abolished. The League of Nations to be democratically organized. International militia (police) and disarmament.



## APPENDIX III

### THE TREATMENT OF THE SOCIALIZATION QUESTION IN SWEDEN

(LECTURE BY MR SANDLER, PRIME MINISTER)

#### INTRODUCTION

THE task before me at this summer school is to present a brief statement of the treatment of the socialization question in Sweden. As is generally known, during the epoch of war and revolution the socialization question became realized to a high degree. After the war, in different countries measures were passed to bring about socialization, prepare the way for it or at least to investigate the value of and possibility for socialization. To this third category belongs what has been done in Sweden. The Socialization Commission, a special commission for this purpose, was appointed here in the summer of 1920.

Then this occurred. Sweden had a social democratic government, with Branting as Prime Minister, who, at taking office in March 1920, had stated his intention to have an investigation made of the socialization problem.

Before I explain these principles of the Government for the task of investigation, I shall present a statement of the Social Democratic Party's programme on the socialization question. Immediately before Branting's Government came into power the Party had effected a comprehensive programme-revision which especially involved a revision of the programme in regard to the socialization question. The Party's programme commission which prepared the revision, and whose proposals in all essentials were accepted by the Party's Congress, had set forth its ideas in a report in 1919. The following explanation is based upon this document.

#### 1. *The Social Democratic Party's Programme*

A few of the general points regarding the programme's formation should first be given.

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The programme indicates in what *direction* the Party is aiming, but not *in what manner* the aim should be reached.

An object is perhaps first attained by many stages. Only the object, then, and not the stages, is taken up in the programme. So, for example, the socialization point does not occupy itself *with the transfer-forms* which occur between private enterprise and socialized undertakings; a matter which might be questioned.

Nor does the programme indicate in what order the different demands should be carried out. This is not a question of programme but one of tactic. The tactic must be free in the interest of the programme itself.

The Party's programme is a day's programme in the meaning that it should not contain demands other than those the Party intends to set itself about to accomplish as soon as the Party has conquered the requisite power herefor. After this, other problems arise which first become actual after socialization has commenced.

But the programme shall not be a day's programme in the meaning that it needs to change year after year, or from one election period to another, with regard taken, for example, for changing political conjuncture. The need to draw up principles for the practical action in a certain given political situation cannot be looked after in the Party programme. Such principles can more conveniently be decided upon as an election programme. This is a natural form to decide upon which of the programme's efforts the chief stress shall be laid in the political struggle and to express itself more in detail upon measures which should be submitted to the electorate or be brought to the *Riksdag* (Parliament).

It is of importance especially in regard to the socialization question to thus emphasize that the formulation of the programme-demands does not at all need to signify an assurance within the Party that conditions for realizing these demands are immediately at hand.

Of the seventeen points of the Social Democratic Party's programme five directly concern socialization; one concerns *expropriation*; one *co-operation*; one the *distribution of Income and*

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*Wealth*; the two chief points finally concern—the one, *land questions and special conditions of the farmers*; the other, *economic life in other respects and in general*. I shall consider the different points in the same order.

#### XII. *Expropriation Rights for the Community's Need*

This considers the legal instrument which is demanded for the accomplishment within the whole sphere of production, expropriation rights both in the question of enterprise and wealth, expropriation's right to privilege for State, community, other administration units or for special groups under control of the society—for example, co-operative organizations.

In an incipient socialization other forms than legal acts through expropriation can of course be used. To what extent transference of undertakings to community ownership should be made through customary business agreements must be a question of expediency which cannot be decided by the programme. Lastly, and in perhaps many instances, lawful expropriative proceedings must meanwhile be made available.

In what measure indemnification will enter into expropriation cannot generally be determined. In a general expropriation of the wealth of the possessing class, it can be found justifiable not to leave any compensation, as well as in taxing wealth. But it can also be found convenient to transform the possessors to interest-payers of the community for a certain time in the future. *When individual enterprise or branches of production are involved in an expropriation proceeding with the community, the main principle becomes, certainly, that the business value is covered.* Normally it may be arranged so that *private groups amongst capitalists do not become dispossessed of their wealth, while others continue to receive profits from theirs.* Where compensation occurs, *socialization's quiet and gradual progression is best served by the owners as a class bearing the burden of redemption procedure.* There can be no discussion of paying interest by the community during a long time-period since the capitalist class will as a class be abolished. The possibility for this class to be gradually absorbed into the productive society can be made possible through

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successive interest-decreases or confiscation of the wealth first at the death of the owner.

I shall go over to this point :

#### xvi. *Income and Wealth Distribution are to be regulated*

*Socialism desires an increase in production and a more equal distribution. In this regulation, however, regard must be had at all times for its reaction to increase of productivity, which for the abolition of mass poverty is an indispensable demand. Under the continuation of socialization of undertakings, and not least through democratization of the educative process, the income levels will tend to approach each other even without special measures. However, over and above this, interference on the part of society can be required. That which the attention is fixed upon first and foremost is not the levelling of labour incomes but the abolition of the incomes from wealth. Society should prepare for a more or less complete abolition of that private wealth which produces an unearned income. A vigorous pruning of inheritance rights lies especially close. When social democracy allows private possession of media of consumption, personal property, etc., the right of inheritance cannot reasonably be entirely abolished. It is sufficient that it is so limited that the inheritance no longer becomes a means of livelihood, which releases the inheritor from taking part in the productive labour. But confiscation of private wealth for the society opens a new way to the accomplishment of socialization. This can happen not only through socialization of enterprise but also through socialization of wealth. Through this means the society steps into the place of the private individual as owner of the means of production.*

The Social Democratic programme states on point xiv. :

#### xiv. *Society encourages Co-operation*

Although the significance of the Co-operative Movement has been emphasized in the Party's general principles since 1911, the political programme has not contained anything about the great consumers' co-operation. In support of taking up in the



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programme of a special point in regard to this, the programme commission has advanced the following point of view.

*Co-operation* contains not only an opportune self-defence of the working class against capitalistic exploitation. It is an organization form for future society with great possibilities. First it has seized upon the regulation of distribution in the interest of the consumers. But over and above this, it also organizes productive undertakings which are brought into the possession of consumers and are conducted wholly in their interests.

Thereby co-operation has an important rôle in the great socialization process. This is certainly overestimated if one believes that the free development of its power makes unnecessary the encroachment of society's direct socialization. This development of power which is demanded in order to control capitalism on the points concerned cannot be brought about without the conquest of political power and its use as an economic means of coercion.

In important spheres of production, socialization directly through the community leads more quickly to a consumer's dominating influence on the productive system. The direct socialization has, besides the advantages over consumers' undertakings which have to compete with the capitalistic industry, that it spares society from being overburdened with superfluous undertakings. But within the framework for the general socialization plan it is wise to prepare a larger and larger space for that socialization in less coercive forms which co-operation in its higher stages is able to develop.

#### xv. *The Land Problem*

Regarding this point on the Land question, which is set forth in detail in the Party programme, I shall limit myself to giving the principal argument in the Programme Commission's Report, and after that give you the point without further comment.

*The land and its resources should, like other essential means of production, be placed under the society's control and possession. The chief point in a land policy must be :*

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*To facilitate occupancy of the land for those who through work upon the land desire to secure for themselves a home and livelihood ;*

*To prevent the ownership of land from being used as a means of getting for oneself the fruits of another's labour ;*

*To protect the actual tiller of the soil against capitalistic exploitation ;*

*To secure a systematic plan of production and increase its produce.*

The large-scale industry in a capitalistic society forms a means of getting for oneself the fruits of another's labour. A land policy which will serve the working people must give the large-scale industry forms which prevent exhaustion, and for this purpose place it in the possession of the society. *Co-operation and share systems in convenient forms should be put into practice.* For the small farmers, on the other hand, landownership is a means not to get for themselves the fruits of another's labour, but *only one to earn a livelihood for oneself and family.* Their landownership consequently cannot constitute a violation of a like right of others to the land. A land policy which shall benefit them must be aimed at keeping their land from reverting to capitalistic monopoly and speculation, and also at increasing the produce of the land. Society's interest does not require an abrogation of their ownership right to the land.

In our country, because of natural conditions—climate and topography—small and large farms must alternate and be developed side by side.

Issuing from those principles and their general conception on the proposals for farm production, the Programme Commission has concluded its scheme for land programme.

This programme, which was accepted at the Party's Congress, contains the following points :

#### A

(1) *Compulsory purchase of larger estates in private possession.*

(2) *Neglected estates to be taken over by the society.*

(3) *The institution of entailed estate to be abolished.* The society redeems the entailment.

(4) *The State's land grants to revert to the society.*

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(5) The division of the society's property only if the natural conditions make large-scale industry impracticable.

(6) The society's larger estates to be used by individuals under guarantees for the interest of the public and the farm workers.

(7) The society's estates which have been selected for small farms to be used by the farmers under secured ownership rights.

#### B

(1) For existing farm undertakings in individual ownership a concession system through which the control over land purchase is placed in the society's hands.

(2) Crofters and tenants on land in private ownership to be protected through tenant legislation. Compensation by the landowner for reclamation and land improvements.

(3) On the death of the landowner, if the inheritors so desire, the State will purchase the property in order to secure the tenants' right to the use of their native soil.

(4) Waste-legislation for the whole country.

#### C

(1) The "Own-your-own-Home" Movement to be placed in the society's hands.

(2) The society gives money credit to the house purchaser for erection of new buildings.

I shall dwell in greatest detail on the remaining programme point which explains the socialization problem within other economic spheres. It is also accompanied by the principally most important motivation.

The programme point itself follows :

XIII. *To the Ownership of the Society are to be transferred all*

Natural resources ;

Industrial undertakings ;

Credit agencies ;

Transportation means and communication systems which are necessary for the attainment of the systematic economy ;

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Intelligent direction of the society's enterprise under guarantee against bureaucratic supervision ;  
Workers and consumers to share in the administration of the society's enterprise ;  
Social control over enterprise which remains in private possession.

In the sphere mentioned above the socialization shall be executed according to the prime principle that all those means of production shall be transferred to society's ownership which are necessary for a systematic economy's accomplishment. Socialization may not occur in a form which cannot be defended from the point of view of economy. This must be guided by a clear view and a deep insight into the significance of different branches of enterprises for society's economy in general.

The political measures for socialization should imply a fully conscious contribution in the present process of development toward Socialism. These measures must quite naturally take as their basis the results of concentration private capitalism has reached. Where the development of production has not reached, or nearly reached, the form of monopoly enterprise there is not at hand the full maturity for socialization.

*Large portions of the economic life are still economically unripe for socialization.* Capitalism there is still the most important factor in the economic transformation. So capitalism should complete its work under the supervision and control of the Society. The society should consciously encourage concentration movements which imply an economic advancement and thus support the free tendency of economy toward organization. Such a policy leads more surely, and certainly more quickly, to an enduring socialistic order of production than a rash socialization of branches of industry still insufficiently organized.

The Programme Commission says : " Therefore the Party's socialization programme should be twofold : social ownership and social control. To make ready the social ownership shall therefore be the conscious aim of control : ' First make ready, then socialize.' "

In the economic life, ownership and natural resources signify a decisive influence on the mode of the economic life, mani-



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fested not least by the tendency of large industrial undertakings to also seize the ownership of their raw products—namely, to be integrated. In the accomplishment of socialization, the same economic forces come into action. Even if, by reason of practical organization, the more effectively concentrated branches of industry first come to be socialized, the decisive victory of socialization is won first through social ownership of those natural resources which industrial production exploits—forests, mines, waterfalls.

The economic conditions are also such that the question of socialization of certain natural resources appears as a practical problem of the future.

A society which desires to swiftly usurp position within the economic life should of course attack Capitalism not only on its economic base—raw products—but also in its highest developed form—finance capital.

On this the Programme Commission reports :

In the sphere of credit-means, the concentration proceeds by leaps and bounds. Already here in Sweden a few big banks control the larger part of this. The readiness for socialization is here obviously at hand. And with the big banks in possession of the society a permanent controlling grasp on industry and its development is gotten.

Transportation means and communication systems are already to a large extent in the ownership of the society: State railways, public roads. In the degree they are of importance for intercourse on a large scale—all larger railways, canals, waterways—should they be placed under a systematic, nationally comprehensive administration, with evasion certainly of intensive centralization.

Here belong also the large ship-lines whose social ownership is of great significance for organization of foreign trade.

Within industry's sphere are found many grades of economic readiness. Socialization should concentrate itself on those large branches of industries and undertakings which have essential significance for the whole economic life. Minor undertakings should, as a rule, be able to continue under controlled private economy, in order, amongst other things, not to give the social administration problem too large a dimension in the beginning.

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*The expansion of social production can proceed in part in monopolistic form, in part under continuation of free competition. Only where special reasons exist should the society give its own enterprise a legal monopolization.*

Reasons for this exist *in regard to the great natural resources.* Ownership of these must lie permanently and fixedly in the hands of the society. In this sphere, *private ownership must be abolished entirely. This does not hinder the society from permitting on certain conditions the exploitation of such resources by private enterprise.*

Likewise the society should not tolerate private capitalistic financial institutions in addition to its own. A natural form, especially for lesser credit, is then that the society entrusts to co-operative undertakings the carrying on of credit activities.

*In factory production the conditions are otherwise. The State monopoly can there be a temptation for uneconomic action. Legal prohibition of the starting of a new undertaking within an economic sphere which is socialized should therefore not be invoked. The socialization can and should proceed without disturbing economic freedom.* No legal obstacle should be placed in the way of consumers in taking care of their needs in a different manner than through socialized enterprise. A nation-wide Co-operative Association could attain a sufficient economic strength to be able to appear as a competitor within the production, in case the society's enterprise should be mismanaged. The Programme Commission here refers further to the Party's demand for free trade, the best corrective against uneconomic management of the society's enterprises.

To the degree socialization proceeds the political "Power-State" dies, and is transformed to an economic State administration, "an inclusion of those organs which intend to develop the greatest possible productivity and to encourage an equitable division of wealth" (Vandervelde).

According to these ideas, embraced in Socialism's foremost theories and already emphatically expressed by Engels, socialization must in its own interest cause the annihilation of the supreme power of the State with its bureaucratic forms.

The programme does not explain the *forms of transfer* which

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can be considered to *come up between private and social enterprise*. Here it may only be intimated that of course no principal obstacles are in the way for applying the *concession system*, or by a "*half-and-half system*" in one form or another between *State and private companies*. As an intermediate form can also be brought up a continued private activity under profit restrictions for shareholders, where the surplus above this restricted profit is to be turned over to the society.

In order that socialization shall fully have the effect desired, it is of the greatest importance that the administration problems are rationally solved.

*Experiences from State-driven undertakings have justified suspicion that the management of socialized undertakings will be slack, bureaucratic and uneconomic.*

Here social democracy must be on its guard and see to it that *the undertakings obtain "intelligent direction under guarantee against bureaucratic management."*

Guarantees against bureaucracy are achieved through *avoiding the monopoly form*, through *avoiding strong centralization*, through *leaving extensive scope for co-operation*, through preparing a place in the administrative organ even for consumers, and through *leaving the management sufficient freedom of action*. *The undertaking management must be intelligent*. Neither officials nor politicians, but the most technically and commercially educated, should be placed at the head of the society's undertakings.

*So State enterprise in its popular, common sense disappears. In its stead appears the socialized self-management of productive enterprises under representation of different interests.*

In the direction of the administration, society as a whole—the workers and other personnel and the consumers—should be represented.

In the socialized branches of production the position of the labourers is principally different from that under private capitalism. They should be represented in the directing council and in that way share in the administration of production.

But production is carried on for the sake of consumption. In the directing council the consumers should also have a voice.

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In regard to the common consumption articles, it is natural that representation is attended to by the consumers' co-operative organ. In regard to raw products and factory products, which are not sold to the public, a representation is to be selected from the purchasers.

*Control shall be exerted over enterprises which remain in private ownership.* Here must be had a continuous supervision over production, exploitation of workers and capital's profits within the private activity. Public revision is introduced and corporation inspection which can secure the undertaking itself against the profit hunger of the shareholders. Exhaustion of natural resources which are exploited by individuals must be guarded against. Neither waste nor exhaustion is to be tolerated. So it is, for example, of special importance for forest economy that an effective waste law protect the forest duration in forest tracts which remain in private possession, and also that the society enforce a rational forest care.

I have given this detailed explanation of our Party's socialization programme of 1920 to show to what point the ideas within the Party had progressed at the time when the political action in question was begun.

The Social Democratic Party has since 1917 taken part in a Government together with the Liberals with four places out of eleven. In March 1920 this Government Coalition was broken through a conflict between the Social Democrats and the Liberals on the Municipality Tax question. A Social Democratic Minority Government was built, with Branting as Prime Minister.

Its chief aim was to carry through a municipality tax system, and therein was unsuccessful. Before they went out in the fall, however, they had started official investigations of the socialization problem.

I go over now to a statement of the object of this investigation commission appointed by the Government. . . .



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